



THE JAPANESE "NEW ORDER"  
IN ASIA

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# THE JAPANESE “NEW ORDER” IN ASIA

BY  
PAUL EINZIG

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## PREFACE

SOME two years ago I undertook the task of writing a book on *Hitler's "New Order" in Europe*. After the Japanese occupation of the countries of the South-Western Pacific some of my readers approached me with the suggestion that I should now write a book on the Japanese "New Order" in Asia. It was not without some diffidence that I embarked on this task, which then appeared to me very difficult, and which did not become any easier as the work proceeded. For one thing, I did not possess the same background knowledge about the Far East as about Europe. Moreover there is incomparably less material available about the doctrines of the Japanese "New Order" — or, as they like to call it, "Co-Prosperity" system — and its operation in practice. When writing my book on *Hitler's "New Order" in Europe* I had ample material at my disposal. The theory of the proposed system was clearly outlined in Walter Funk's speech on June 25, 1940. There has been no similar clear-cut statement about Japan's economic aims and methods in Asia; at any rate no such comprehensive manifesto has reached this country. As to the material of facts, when working on my book on *Hitler's "New Order" in Europe* I was suffering from *embarras de richesse*. Information about conditions in German-occupied Europe was pouring in from all sides. A large number of nationals of the conquered countries managed to escape after German occupation, and brought back detailed information. American and other neutral journalists remained on the spot for a long time, and while during their presence they were handicapped in telling the world what they knew, once they left German-controlled Europe they were able to give valuable information. It was also possible to learn a great deal from German newspapers and the newspapers of German-occupied Europe about the measures taken by the occupation authorities. There was also the radio, which yielded to discerning listeners a very

satisfactory crop of information in between bouts of propaganda broadcasts. Finally, the various Free Governments established in London, who had special sources of information about conditions in their respective countries, were also very helpful. My problem was not how to secure an adequate volume of information, but to decide what part of the material I should use, since I was unable to use more than a fraction of the total.

My task was not nearly as easy in dealing with the Japanese "New Order" in Asia. Only very few refugees have reached this country since the Japanese occupation, and, for the most part, they were interned before their departure and were not in a position to follow closely what was happening. Nor are there any neutral journalists to enlighten the world as to what is happening in Japanese-controlled territories which, for all practical purposes, have become closed countries. Japanese newspapers and the newspapers of Japanese-occupied countries are inaccessible to me. Nor is it easy to pick up Japanese material on the radio, though the broadcasts of the Domei Agency are available. Although the Dutch Government in London has been obtaining a certain amount of information from the Dutch East Indies, generally speaking it is true to say that direct information obtained from Japanese-occupied countries has been very scarce.

In these circumstances, I had to rely for my material to a large extent on information published in the German Press. Although German Press correspondents are not allowed to roam about in the newly-conquered countries, there are a number of them established in Tokyo, Shanghai and other Japanese-controlled centres. Needless to say, their material had to be subjected to close scrutiny before accepting it, and to some extent it had to be checked on the basis of such material as was obtainable from other sources. It was also necessary to allow for the prejudice of the German Press in favour of Germany's Axis partner, though, considering the close alliance between Berlin and Tokyo, the undisguised satisfaction with which the German Press has at times reported the difficulties encountered by Japan

and the mistakes made by her in the economic organisation of the occupied countries was very remarkable indeed.

The annual report of the Bank for International Settlements for 1941-1942 also contained a great deal of information about the monetary and banking conditions in Japanese-occupied Asia. Finally, occasional messages were received from Chungking and Australia, based, presumably, on first-hand information. Thus, while the material of facts available was not plentiful, it was possible with the aid of the available information, to piece together the jigsaw puzzle of the Japanese "New Order" in Asia.

For the background and for the appreciation of the position and prospects it was necessary to use mainly pre-war statistical material, and to rely on inference regarding the changes in the productive capacity of Japanese-controlled countries since 1939. Most of the figures published in this volume are based on official statistics.

Although the Japanese propaganda machine uses the term "Co-Prosperity Sphere" in preference to "New Order", I decided, nevertheless, to choose as the title of my book the original term with which Japanese propaganda described Japan's aims in Asia. Between 1937 and 1941 Japanese spokesmen and writers were singing the praises of the Japanese "New Order" in Asia. It was not until after the term "New Order" had become obviously discredited as a result of its use and abuse by German propaganda with reference to the German exploitation of Europe that Japanese propaganda decided to drop it and to adopt the slogan of "Co-Prosperity" for Great East Asia.

I endeavoured to forecast from present and past conditions in the territories which are now under Japanese control the conditions that would prevail there should these territories be allowed to remain under Japanese control after the war. This is a matter of considerable importance from the point of view of political warfare in the Far East. There is very little need for Allied propaganda to bring home to the inhabitants of the Japanese-conquered countries the facts of their maltreatment by their conquerors. What is required is to counteract Japanese propaganda,

which tries to explain their unsatisfactory treatment on the ground of war conditions, and is almost outbidding the German "New Order" propaganda in promising ideal conditions to the conquered peoples after the war.

It may seem incredible, but there are people in this country and the United States who are inclined to accept some claims of the German "New Order" propaganda or, at any rate, are not prepared to reject them out of hand. This attitude can be explained in a great many instances as sheer intellectual snobbery. Many academic economists feel they owe it to their status of Pure Scientists to adopt what they regard as "a completely detached view" about the enemies of their country. In their effort to avoid appearing prejudiced they are willing to let Germany have the benefit of the doubt and to give the devil considerably more than his due. Most of their fellow-economists are duly impressed by what they consider to be scientific impartiality but what is in reality an entirely unintentional bias in favour of the enemy. The result is a distorted picture that renders a disservice both to the cause of the freedom-loving peoples and to the cause of truth.

Up to the time of writing I have not yet come across any defence of the Japanese "New Order". I have no doubt, however, that this book will meet with a certain amount of criticism on the ground that when examining Japan's future intentions I have been too "uncharitable". As in the case of Germany, some people may insist that the plunder of the conquered peoples by the invader is essentially a war-time policy, and that there is no complete evidence to show that the roaring lions of the ruling race will not become miraculously transformed into sucking doves the moment the war is over. Admittedly there has been so far little or no actual evidence available to prove Japan's true intentions. Various German politicians when speaking for home consumption have admitted on a number of occasions with disarming candour that the standard of living of the ruling race is intended to be higher than that of the subject races. While the clumsy Prussian may be undiplomatic enough to blurt out the truth in unguarded

moments, his Japanese opposite number is a pastmaster in the art of camouflage and is not likely to be caught out so easily.

Notwithstanding this, it is possible to advance convincing arguments to show that Japan's post-war intentions are substantially the same as those of Germany. Judging by the experience of Japan's earlier victims, the inhabitants of Formosa, Korea, Manchuria and China, there can be no doubt about the fate that would await the subject races under the so-called "Co-Prosperity" system. Even if an efficient exploitation of the vast territories which are now under Japanese control were to lead to an increase in the value of their production — which is by no means certain — the share of the subject races in such prosperity would be smaller than it was before the Japanese invasion.

The reader is to judge for himself whether or not, on the basis of Japan's past record and her present behaviour towards the peoples conquered by her, it appears to be justified to give her the benefit of the doubt, and whether in forming his opinion about Japan's probable attitude towards these peoples he should rely on the facts of experience or the promises of Japanese propaganda.

P. E.

130 QUEEN'S GATE

LONDON, S.W.7, *December 1942*



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## CHAPTER I

### JAPANESE IMPERIALISM

DURING the last fifty years Japan has assumed the rôle of one of the most aggressive imperialist nations. Between 1895 and 1941 she embarked on several wars with China and seized large parts of her territory ; she fought a war with Russia and on several occasions narrowly avoided clashing with her again ; and finally she attacked Great Britain, the United States and the Dutch East Indies after having invaded French Indo-China and Siam. Japan is in every way a worthy companion-in-arms of Germany. Yet there is a fundamental difference between Japanese and German imperialism. The German race was prompted by an aggressive spirit already in the Middle Ages and has a thousand years' record as an aggressor. Japan, on the other hand, had a blameless record until the end of the nineteenth century. Indeed, for two centuries she had isolated herself completely from the rest of the world. At no time during her long history did she attempt external conquests until the end of the nineteenth century. Her sole desire had been to be left alone. It would be interesting to speculate whether, had it not been for the short-sighted policy of the United States and the European Great Powers which forced her to re-establish contact with the outside world, Japan would have remained in the backward but harmless state in which she was when in 1854 the naval squadron of Admiral Perry forced her to open her ports to foreign shipping.

Within the brief space of time that elapsed since the change that was forced on Japan she developed into a most aggressively imperialist nation. Having been forced out of her mediaeval isolation she caught up with technical progress in an amazingly short time. Unfortunately she also absorbed the imperialism that characterised some of the European Great Powers with which she established contact.

By the end of the nineteenth century Japan had already made her first conquests. She gained possession of Korea and of the island of Formosa as a result of defeats inflicted on China. At the beginning of this century she fought a successful war against Russia, and displaced the latter as the dominating influence in Manchuria and North China. In 1914 Japan joined what she rightly regarded to be the winning side in order to be able to annex the German possessions in the Far East. After the last war Japan was the first to break her international undertakings and embark upon a war of aggression. In 1931, when Hitler was still helpless in opposition, and when Mussolini's conquests still consisted of land reclamation in the Pontine Marshes, Japan invaded and conquered Manchuria. During subsequent years she extended her control over Inner Mongolia, and since 1937 she has been in open warfare with China. For a year or two before this war it looked as though a war between Japan and Russia in the Far East was unavoidable. Indeed, Japan joined the Anti-Comintern Pact, the alliance directed against Soviet Russia. It looked at that time as though the new World War would start with a German-Japanese invasion of the Soviet Union. When, in August 1939, the Russo-German Pact was concluded, Japan did not conceal her disappointment. Nevertheless, before very long, Japan decided that, after all, she could collaborate with Germany notwithstanding the betrayal of the Anti-Comintern Pact by Hitler, and in 1940 Japan became a partner in the Axis. Once more she joined what she considered to be the winning side, for the sake of the prospects of taking her share in the booty. During the summer of 1941, under pressure from Berlin, the Vichy Government gave its formal consent for the military occupation of French Indo-China by Japan. As a result, Japan secured for herself a base for subsequent operations against the European and American possessions in the Far East. These operations were actually begun in December 1941.

In none of her wars had Japan the slightest excuse for embarking on hostile action. None of the countries concerned threatened her security in any way. There were

no oppressed Japanese minorities to be liberated, nor was there any need for securing better strategical frontiers. Indeed, from a strategical point of view, Japan's natural borders could not possibly be improved upon.

The explanation put forward by the apologists of Japan was that she was driven to an aggressive policy of imperialism by economic necessity. It is a well-known fact that Japan's raw material resources are highly inadequate. She has practically no oil, and has very inadequate mineral resources. An unduly large percentage of her raw material requirements has to be imported from overseas. Even though, with the aid of Formosa and Korea, she is more or less self-sufficient regarding food, this is because of the incredibly low standard of living of the Japanese people. The population of Japan is very dense, and were it not for the exceptional modesty of the food requirements of the Japanese it would be impossible for her to feed over eighty million souls with the aid of Japanese resources.

On the basis of these facts apologists of Japanese imperialism argue that she was entitled to make an effort to secure for herself markets and raw material resources in Asia. The foreign exchange difficulties which Japan suffered from time to time between the two wars were held as evidence that she found it difficult to make ends meet in her international balance-sheet. In the same way as many people sought to justify German aggression on the basis of the *Lebensraum* doctrine, the same people or others sought to justify the Japanese expansionist policy with the argument that the very life of the Japanese people depended on the possibility of securing control over an adequate living space. As in the case of Germany, so in the case of Japan the defenders of aggression never troubled to define the geographical boundaries of the living space they thought she was entitled to, nor the exact nature of the control claimed for that indefinite living space.

In the case of Japan as in the case of Germany, the claim for the control of living space was reinforced by accusations of economic encirclement made against the countries which were opposed to Japanese designs. The

apologists of Japan's policy pointed out that it was essential for Japan's existence to secure full control of the sources of her essential raw materials. The growing hostility of the outside world was quoted as an argument reinforcing the Japanese claim, even though it was obvious that the unfriendly attitude of the countries whose rights and interests were threatened by Japan was the effect and not the cause of Japanese imperialism.

The arguments used by the apologists of Japan's policy were largely based on the historical conception of materialism. This philosophical principle grossly exaggerates the economic motive in historical developments while denying or at least minimising other motives. Beyond doubt, if a student of history is determined to set out to prove that every major change in history from the Exodus onward was due to economic causes he is able to marshal a very impressive array of facts in support of his argument. It is possible, however, to produce an at least equally impressive display of factual material to prove that the major changes in world history have been due to motives of an essentially non-economic character. Most wars of conquest throughout the ages could well be accounted for without the aid of the economic factor.<sup>6</sup> Until comparatively recently historians virtually ignored the economic factor and endeavoured to explain imperialism on the basis of lust for power and craving for glory. In more recent times the pendulum swung in the opposite direction and power and glory are now considered to be hopelessly romantic explanations by the majority of modern historians. They consider themselves infinitely superior compared with their predecessors, because they put forward what they regard as the realistic explanation based mainly on economic motives. And yet those historians who regarded power and glory as the strongest motive underlying historical developments were better judges of human nature than their materialistic successors. Of course, power brings with it economic advantages; nevertheless, it is sought after also for its own sake, even if those who hope to achieve it are obviously unable to enjoy the economic benefits secured through it.

The historical conception of materialism is particularly unsuitable as a basis for explanation of Japanese imperialism. It is well known that the Japanese people are a remarkably selfless community. Individuals in Japan are like bees in a beehive or ants in an ant-heap. They consider their ability to serve the community the sole justification for their existence. They do so without regard to risks and sacrifices. This does not mean that the Japanese individually are not selfish or greedy. What it means is that they are willing to subordinate their individual selfishness and greed to national selfishness and greed. As the experience of the first few months of the war in the Pacific has shown, they are willing to throw away their lives recklessly in their fight for Japanese imperialism. What is perhaps even more difficult, they are prepared to work hard for long hours for wages which keep them barely on the subsistence level in order to help their country overcome its economic handicap. The Japanese people are prepared to put up with a low standard of living for the sake of the greater glory of Japan. And the population increases notwithstanding the low standard of living.

If the sole motive behind Japanese imperialism consisted of the desire to overcome the economic difficulties of the country, that end might well have been achieved without resorting to wars of aggression. The argument that conquests are necessary in order to secure raw material resources and markets for exports is as unconvincing in the case of Japan as it is in the case of Germany. Amidst the present shortages of raw material we are liable to forget that before the war there was a superabundance in almost every essential raw material. The countries which produced the raw materials required by Japan were only too eager to sell her as much as she was willing to buy provided that she was able to pay for it. Admittedly Japan's capacity to pay for purchases abroad was by no means unlimited. Her gold reserve suffered a decline from time to time between the two wars although it never dropped to a low level comparable with that of the German gold reserve. Her foreign exchange position gave rise to much

concern notwithstanding the ability of Japanese exporters to overcome customs barriers. Indeed the competitive capacity of Japanese exporters was becoming proverbial. In lines where price was more important than quality Japanese exporters operated highly successfully. Their goods penetrated into every part of the world and successfully competed even in the home markets of the leading manufacturing countries. The extent to which Japanese exporters were able to cut prices perplexed the world. Even though reports concerning the half-crown bicycles and sixpenny fountain pens were exaggerated, it is nevertheless true that the prices at which Japanese firms were able to sell their goods were at times astonishing. What was particularly puzzling was that Japanese firms cut their prices far beyond the level necessary for securing markets. For instance, if the lowest price at which non-Japanese exporters were able to sell a certain article was 20s., the Japanese exporters would have been well in a position to secure orders by quoting, say, 18s. In spite of this they quoted 10s. or less. This was due in part to the desire to overcome the buyers' prejudice against Japanese goods, but also to a large extent to the existence of cut-throat competition between Japanese exporters themselves. Since their cost of production justified the price of 10s., any Japanese firm which quoted a higher price would have been cut out by other Japanese firms willing to sell at the minimum level at which the transaction was still profitable.

This excessive competition between Japanese firms was probably one of the reasons why the Japanese foreign exchange position was not easier. A more important reason was that Japan, like Germany since 1933, imported far too much for her rearmament requirements. She has been preparing for war ever since the end of the last war, which failed to satisfy her ambitions. Between 1931 and 1941 Japan had been almost incessantly in a state of partial mobilisation. Apart from the armed forces engaged in the campaigns against China, it was considered necessary for Japan to keep a large army on the Siberian border. All this required a large volume of equipment much of which

was worn out or used up during the war with China. In addition Japan was preparing for her war with the Anglo-Saxon nations. To that end she endeavoured to pile up large quantities of military equipment and also to accumulate stocks of raw material. In addition to her current requirements she imported, therefore, abnormal quantities for these purposes. It is no wonder her foreign exchange position was at times rather tight. Had it not been for these entirely military requirements Japan would have possessed enough foreign exchange to buy abroad all the raw materials she needed for civilian purposes.

Japan, like Germany, was confronted with the "guns or butter" dilemma. Both nations wanted to have guns as well as butter and blamed the rest of the world for being unwilling to supply them with both in sufficient quantities. Even if this had been so, Japan could hardly have been justified in blaming the rest of the world for its unwillingness to supply her with the means that were intended to be used for the destruction of the very nations who supplied them. There would have been every justification for the United States and the European countries with interests in the Far East to apply a policy of economic encirclement against Japan as a means of self-defence. In reality this was not done. No economic sanctions were decided by the League of Nations against Japan for her various acts of aggression from 1931 onwards. The United States, the Dutch East Indies and the British Dominions and Colonies were short-sighted enough to supply Japan with strategic raw materials almost to the very last.

It cannot be emphasised sufficiently that had Japan harboured peaceful intentions she would not have been handicapped by her lack of raw material resources. Her poverty in iron ore or in other mineral ores was more than offset by the possession of vast working classes willing to work harder for considerably lower wages than those of her commercial rivals. That being so, Japan was always in a position to procure the wherewithal for covering her normal import requirements.

It may be objected that after all Japan was fully entitled



to regard the requirements of her national defence as normal and that she could not be expected to disarm stark naked merely because she did not possess adequate raw material resources on her own territory. 'It may be argued that no self-respecting nation cares to expose itself to the humiliating experience Japan had to face during the nineteenth century when she was powerless to oppose an adequate force to the American and European fleets that forced their way into her harbours. Against this it is necessary to recall that throughout her long history Japan is never known to have been invaded. She is in an exceptionally favourable geographical position to defend herself against any attempt at invasion. In 1940 the full advantages of Great Britain's insular position came to be adequately realised. Japan too possesses the same advantages, only to an even higher degree. The water which separates her from the Asiatic mainland is considerably wider than the English Channel. Nor is she exposed to any attacks from the mainland comparable to those for which Great Britain had to prepare herself from time to time throughout her history. Thus, while it would have been perfectly legitimate for Japan to possess an adequate defence force to obviate the recurrence of the humiliations of 1854, 1863 and 1865, there was no justification to build up a huge army, a formidable navy and a powerful air force from the point of view of the security of Japan. Indeed Japan could well have afforded to disarm on land and in the air at least to the same extent as Great Britain did after the last war. As for her naval forces, from a defensive point of view she did not require more than a fraction of her actual strength, since she had no extensive commitments comparable with those of the British Navy. Had Japan kept down her armaments to a reasonable level it would have been possible for her to secure for her population a reasonable standard of living.

Instead of adopting this policy Japan made the utmost effort between the two wars to increase her armed strength. She embarked on wars which required substantial sacrifices in terms of imported materials. Since 1937 drastic austerity measures similar to those adopted by Great Britain in 1941

and 1942 were adopted by Japan. Rationing and the limitation of supplies for civilian consumption have been in existence in Japan for the last five years.

To those who maintain that Japan was driven into an imperialist policy by the inadequacy of her resources we can reply that the proof of the pudding is in its eating. Had Japan been encircled economically she would never have been able to achieve the degree of rearmament which she achieved within a comparatively brief space of time. In her case rearmament was even a more formidable economic task than in the case of Germany. While the latter possessed at least the industry required for rearmament, Japan had to build up to a large extent a new arms industry. She had to import for the most part the machinery required for the creation of munition works and of synthetic oil plants. To have been able to achieve this without having to starve the population has been no mean performance. It is easy to imagine the degree of prosperity that could have been created in Japan if this tremendous effort had been directed into constructive instead of destructive channels.

Evidently lack of economic resources constituted no obstacle to Japanese imperialism. Nor, for that matter, did lack of financial resources. It is often asserted that the reason why after the series of defeats inflicted on the Imperial Russian forces Japan was willing to accept comparatively moderate terms was that she was no longer able to continue to finance the war. Lack of adequate financial resources may have constituted an obstacle to the continuation of the war forty years ago. It certainly does not constitute an obstacle now. In the meantime Japan has fully developed her credit system which is now in a position to provide the financial resources required. In Japan as in Germany the war is now financed largely through re-borrowing from the public the amounts spent in order to be able to spend them again and again. There was no need for Japan to build up a big gold reserve in order that she should be able to provide for the financial requirements of a big war. From this point of view the lack of adequate resources did not constitute a major obstacle to Japanese

imperialism, nor did it constitute an excuse for it.

It is indeed absurd to imagine that by granting Japan some financial or economic concessions it would have been possible to induce her to relinquish her imperialist designs. She wanted to conquer not because this was a vital necessity from an economic point of view but because the present ruling caste harbours ambitions for conquering Asia and perhaps other continents. Japanese imperialism is not the result of economic necessity. It is the result of a lust for power and a craving for glory.

## CHAPTER II

### THE LIVING-SPACE CLAIM

THE fallacy of the "living-space" doctrine — under which a country must have political control over its essential raw material resources and its essential foreign markets in order to be able to exist — has been exposed many times by British and Allied statesmen and writers in dealing with the German *Lebensraum* propaganda. It has been pointed out time and again that the living spaces of various countries necessarily overlap so that the satisfaction of the claim for living space of one country necessarily deprives another country of its living space, even though the latter has as much or as little justification for its claim of control over its living space. It has also been pointed out on many occasions that the small countries themselves which have the misfortune to belong to the living space claimed by bigger countries have as much right to their independent existence (or, for that matter, to a living space of their own) as the big countries. Finally, it has been argued with convincing force that claims based on the living-space doctrine have no limits in practice, since once the conquering country has succeeded in gaining possession of the full territory which it claims to be its living space, immediately fresh claims can be put forward on the ground that the larger territory it now possesses requires control over a still larger living space. Indeed, nothing short of world conquest by a single Power can bring this vicious circle of claims, conquests and fresh claims to a conclusion.

What is true concerning Germany is equally true concerning Japan. Nevertheless it would be a mistake to attempt to counter the Japanese living-space argument by relying on generalities alone. It is necessary to deal with this matter by a detailed examination of the living-space doctrine as applied to Japanese conditions.

There can be no doubt that the living-space doctrine

had a very strong influence on Japanese opinion, and that its acceptance by a very large section of the Japanese public has been largely responsible for the present war in the Far East. It is always a mistake to imagine that wars are produced by a few scores or even a few thousands of wicked war-mongers who impose their will on the pacific masses. Admittedly the Japanese nation was not consulted, any more than the German nation, whether it approved the decision to embark on the largest war in its history, for the sake of acquiring additional territories on the mainland and islands of Asia and, possibly, on other continents. Nevertheless, it is inconceivable that the War Party, led by General Tojo, should have had its way in face of the opposition, or even of the apathy of the predominant majority of the people. Before taking the fateful decision the War Party had succeeded only too well in convincing the Japanese nation that this war was a vital necessity for Japan in order to secure control over her living space. Much capital was made out of the argument based on Japan's well-known lack of many essential raw materials. In this respect Japanese war propaganda received powerful, if unintentional, assistance from a number of British and other European and American authors who imagined that they were serving the case against Japanese aggression by representing Japan as a helpless State owing to her lack of strategic raw materials. These authors marshalled a formidable array of arguments to show that Japan was very weak behind the façade of her military power, and that the first clash with really powerful opponents would lead to her immediate economic collapse. Presumably the object of this line of argument was to encourage Great Britain and the United States to make a firmer stand against Japanese aggressive expansion, and to instil into the minds of the Japanese an inferiority complex tending to discourage her aggressive designs. Whether or not the exaggeration of the weakness of Japan's economic war potential contributed towards the decision of the Allies to make a firm stand against further Japanese expansion after the annexation of French Indo-China is open to

question. What is quite certain, however, is that these ideas did not in the least discourage Japan from pursuing her imperialistic plan. Her leaders did not learn their facts about Japan from foreign books. They were well aware of the gross exaggerations these books contained. As for the rank and file, their attitude was influenced in an exactly opposite sense to what these well-meaning writers intended. Their arguments were used by Japanese propaganda to prove the urgent necessity of remedying the "intolerable" state of affairs under which Japan would be permanently at the mercy of other Powers.

There were, of course, other weapons in the well-equipped armoury of Japanese war propaganda. The usual platitudes about the "have" and "have not" nations, about the unfair distribution of the world's resources, about Japan's right to a place in the sun and about economic encirclement by hostile Powers were used and abused. Very little has been done to counteract this propaganda, and most of its statements have passed uncontradicted. Yet there is an answer to the Japanese version of the living-space doctrine, and it is high time that this answer should be given.

It is a fact not generally known that, as far as food is concerned, Japan, together with her old possessions Korea and Formosa, is more or less self-sufficient. In this respect her position is incomparably better than that of either Great Britain or of Germany or of Italy. Admittedly this is largely due to the modesty of the requirements of the Japanese masses in comparison with those of European peoples. The capacity of the Mongolian peoples to manage on an incredibly small quantity of food, mainly rice, is proverbial. Owing to this, Japan has been able to achieve self-sufficiency in food, and there is certainly no need for her to acquire additional territory from this point of view. Whether it is an ideal state of affairs that a nation should exist on such a low standard of living is, of course, another question. It would be understandable if a country argued in favour of conquest in order that it should be possible to improve its standard of living and yet to remain

self-sufficient in food. But then this argument would depart from the living-space doctrine according to which expansion is necessary to secure political control over the resources needed for covering existing normal requirements. Conquest for the sake of improving the standard of living could not be justified on the basis of the living-space doctrine with which we are concerned in this chapter.

Beyond doubt Japan's raw material position is incomparably less satisfactory than her food position. She depends on imported mineral oil, iron ore, metals, coal, cotton, wool, rubber, jute, etc. The existence of her industries depends to a very large extent on her ability to cover her requirements of these materials by means of import. This is, however, no unanswerable argument in favour of political control over the resources of these essential raw materials. The reader accustomed to war conditions of raw material shortages may be inclined to attach undue importance to the claim for control over the raw material supplies which are vital for the existence of a nation. Human memory is short and it cannot, therefore, be recalled often enough that not so many years ago producers of the raw materials required by Japan were competing with each other to sell these materials to her. Until July 1941, when, in reprisal for the invasion of French Indo-China, Britain, the United States and Dutch East Indies Governments placed an embargo on the shipping of strategic raw materials to Japan, she experienced no difficulty whatsoever in buying any raw materials she wanted and was able to pay for. She satisfied her raw material requirements for the most part out of the resources of those very countries which she has now conquered, or which she intends to conquer, that is, China, the countries of the South-Western Pacific, Australia, Burma and India. There was no need for her to conquer those countries in order to obtain the raw materials she required. She was able to cover not only the normal supplies required by her expanding industries, but also the abnormal requirements of her rearmament drive and her war in China. The countries producing the raw materials she needed had a surplus

which they were only too glad to dispose of, in particular during the great depression of the early 'thirties. There was a considerable degree of over-production in the raw materials imported by Japan, and there was keen competition between the various producers for the favour of her custom. Japan was welcomed everywhere as a good customer.

The Japanese answer to this line of argument is twofold. "It is true," the Japanese spokesmen argued, "we can buy the materials we need in time of peace, but we have to secure our country against the possibility of being cut off from her raw material resources in time of war. And even in time of peace we can only buy raw materials to the limit of our foreign exchange resources."

The argument that Japan has to safeguard the continuity of her raw material supplies in time of war became powerfully reinforced when, in July 1941, the Allies placed their ban on the export of strategic raw materials to Japan. The Japanese propaganda machine triumphantly pointed out that this measure provided full justification for Japan to embark on the military conquest of the territories which had formerly supplied her with raw materials. The absurdity of this argument is only too obvious. It took a long time for the Allies to make up their minds to resort to the embargo. They only took this decision when the Japanese occupation of French Indo-China made it perfectly evident that Japan intended to embark on the conquest of the South-Western Pacific countries. Until that move the Allies were exceedingly patient (indeed far too patient) in face of the evidence of Japan's aggressive intentions. There would have been ample justification for taking drastic measures to deprive Japan of her resources of strategic raw materials at the moment of the outbreak of the "China Incident" in 1937, or even at the time of the invasion of Manchuria in 1931. Shortly before the war, the Japanese seizure of certain islands in the South Seas and other obvious signs of preparation for a war of conquest against British and Dutch possessions would have fully justified the stoppage of raw material supplies as a matter



of elementary self-defence. And yet until August 1941, supplies of oil and other strategic raw materials were flowing into Japan from the United States, from the Dutch East Indies and from British possessions. Britain's half-hearted attempts at checking certain kinds of supplies did not in practice amount to very much. Even after July 1941 a certain amount of raw materials was dispatched to Japan.

The argument that Japan is entitled to secure the control of the sources of her raw material requirements in the interest of national defence is entirely false. Nobody could possibly have threatened the national security of Japan, and few countries were in a position to feel so secure against the threat of invasion. It was unlikely that Japan would ever have to fight a war of self-defence. She was in the fortunate position of being able to remain at peace so long as she herself wished. It is true that towards the middle of the nineteenth century she was subject to minor acts of aggression on the part of the European Powers and the United States. Nevertheless the spirit of the times has changed considerably, and it must have been obvious to Tokyo that none of the great maritime nations was likely to disturb her peace. The only conceivable war in which she was liable to be involved was a war of conquest of her own making. Thus, when Japanese spokesmen declared that Japan must secure the control of her raw material resources in order that she should be able to safeguard her requirements in case of war, they really meant that the conquest of the countries supplying her with strategic raw materials is necessary to enable her to make further conquests, or, at any rate, to defend the countries conquered against any attempt at their liberation.

Let us now examine the argument that even in time of peace Japan was at a grave disadvantage owing to the limitations of her foreign exchange resources available for purchasing much-needed raw materials. No country has unlimited foreign exchange resources. Judging by Japan's ability to cover her abnormal rearmament requirements, it is evident that before the war she was not doing too badly. Had it not been for these abnormal requirements her

civilian requirements could have been easily satisfied, and there would have been ample resources available for a considerable expansion of her industries. This in spite of the difficulties Japanese exporters encountered through the reinforcement of trade barriers in other countries, and through the development of prejudice against Japanese goods abroad. Thanks to the high output per head of her industrial workmen and to the modesty of their requirements, Japan was able to secure exports abroad in spite of trade barriers. Indeed the competitive capacity of Japanese exporters was proverbial, especially in lines in which price was more important than quality. After the slump of 1930 the curtailment of the purchasing power of the masses all over the world brought about a strong tendency towards "the survival of the cheapest". The consumers were compelled to buy the cheapest goods on the market even though they realised that in the long run this did not pay owing to the inferior quality of these goods. Just as in the internal market Woolworth's penny bazaars and the lowest grade tea-shops were the sole beneficiaries of the depression, so in the international market the exporters of shoddy and cheap Japanese goods were able to undersell better but more expensive goods of other nations. Japanese goods were at an advantage not only in agricultural countries which had no reason to discriminate against them, but also in the home markets of the leading manufacturing countries.

The prejudice against Japanese goods did not constitute a major obstacle to securing foreign exchange through exports. There had been more good-natured joking about absurdly low prices than any real hostility. Indeed, such half-hearted attempts as were made to discourage the purchase of Japanese goods owing to the invasion of Manchuria and China produced no perceptible results. Japan continued to flood the British market year after year with Christmas decorations, crackers, cheap toys and a variety of tinned goods. It would have been difficult to persuade women to do without silk stockings rather than buy Japanese-made silk stockings which were within the capacity of their purse. The most effective boycott against

imports from Japan was organised in China after one of the periodical Japanese assaults, and even that boycott was only moderately effective. At one time in the early 'thirties a well-known Chinese merchant in one of the Treaty Ports applied to his bank, one of the British banks, for an overdraft of an unusual size. He explained that he wanted the money to finance imports from Japan. This was at the time when a number of shops selling Japanese goods were wrecked by infuriated Chinese crowds. When the bank manager pointed out to his client the risk attached to the importing of Japanese goods, he waived the argument aside by remarking: "That is quite all right. I am chairman of the local Anti-Japanese Society."

Neither trade barriers nor anti-Japanese feeling were able to check the flood of Japanese exports. Indeed, during the 'twenties the trouble was that Japan was exporting too much instead of using her producing capacity for building up industries with the aid of which she would be able to cut down her imports. There was a lack of planning which can only be described as astounding considering that Japan has the reputation of being the most disciplined country in the world. Paradoxically enough the relative shortage of Japan's supply of foreign exchange was not due to inadequate exports but to excessive exports. To illustrate this it is sufficient to recall one of the major foreign exchange crises in Japanese history, brought about by the earthquake of 1923. This earthquake was followed by a flood of imports for reconstruction purposes, and led to a heavy loss of gold and to a depreciation of the yen. "You may well be wondering," writes the late Mr. Junnosuke Inouye,<sup>1</sup> one of Japan's leading financial experts, who held the posts of Finance Minister, Governor of the Bank of Japan and President of the Yokohama Specie Bank, "why we had to import so heavily, and why, at a time when we were hard pressed enough in all conscience, we did not do our reconstruction with home products. The single instance of the timber supply shows the reason for this — shows it only too well. In those days timber was needed more than anything

<sup>1</sup> *Problems of the Japanese Exchange: 1914-1926*, pp. 92-3.

else. Certainly there are forests everywhere in Japan — the Government Forests and the Forests of the Imperial Domain — and the felling of timber is a very simple operation. Yes, the timber was there all right, but what was not there was any proper plant for sawing it. There was, practically speaking, nothing of the kind in Japan. In Japanese domestic architecture logs are not used, and it was shaped timber — posts and boards — that was required, but such plant as there was for producing these in Japan proved entirely inadequate to cope with the demand for materials suitable for the construction of habitable dwellings on the scale required. Accordingly the quickest and cheapest way out of the difficulty was to get in sawn timber from America. First and foremost we needed timber, but we wanted plenty of other building materials besides . . . there was, for instance, practically no factory in Japan equipped for the production of builders' hardware. It followed that, under the circumstances, the only possible means of securing such heavy requirements within any reasonable time lay in importing them."

From Mr. Inouye's remarks it is obvious that the remedy of Japan's shortage of foreign exchange was in Japan's own hands. The foreign exchange crisis that followed the earthquake could have been avoided if instead of concentrating mainly on exporting industries Japan had developed her timber industry and other industries catering for civilian requirements. If a nation is industrious, intelligent, economical and well organised, then it is always able to reorganise its production in such a way as to suit her special requirements, and it is able to work out its own salvation in face of almost any shortcomings and difficulties. Where a nation of 80 millions works hard and is organised intelligently, there a nation of 80 millions can live and prosper. Human industry can convert even deserts into prosperous gardens, plantations and townships. If Nature failed to endow Japan with the resources some other countries possess, it certainly endowed the Japanese people with a capacity for hard work and self-sacrifice that is equalled by few other peoples and surpassed by none.

All that was needed was to organise in the right way this national willingness to work hard at a low standard of living.

The foreign exchange difficulties after the great earthquake have taught Japan a lesson. She embarked on a sweeping drive of industrialisation which was gathering momentum as it was proceeding. We shall see in the chapter dealing with the industrial resources of Japanese-controlled Asia that, during the few years that preceded the war, Japan had undergone what may well be described as an industrial revolution. Japan considerably reduced her import requirements of various manufactures, and she was in a position to use her foreign exchange for purchasing raw materials instead. She would have been able to improve her foreign exchange position even more by fully utilising the resources of her old overseas possessions, Formosa and Korea. Although, admittedly, much has been done towards that end, Japan's early conquests are very far from being model colonies. Japan embarked on additional conquests long before she had exhausted all the possibilities of the foreign territories already under her control.

The industrial drive that followed the earthquake of 1923 could have easily secured for Japan an impregnable foreign exchange position if it had not been for the fact that its main purpose was to prepare the country for war. For instance, Japan could have become one of the largest exporters of motor cars if her motor industry had not been concentrated on the production of war planes, tanks and military vehicles. As it was, Japan remained a large importer of American cars to the eve of the war in the Pacific. The rapid development of Japan's tool industry would have satisfied all requirements except those for some highly-specialised tools. Had it not been for the abnormal requirements of the arms industry, Japan would not only have been able to solve her foreign exchange problem, but she would have repaid her external debts and would have become an investor nation on a large scale, thanks to the favourable effect of her industrialisation on her trade balance. As it was, she was exporting equipment to Man-

churia and, to a less extent, to the occupied part of China, for the purpose of establishing expanding local industries under her control. There was, however, a strain on her trade balance, which continued adverse owing to abnormal imports connected with the armament drive.

During the 'thirties Japan embarked on a drive to reduce her dependence on imports of certain strategic raw materials. This was done, however, with the sole purpose of preparing for the war which she was determined to make in order to conquer countries within her so-called living space. In particular, considerable efforts were made shortly before the war and during the period of Japan's non-belligerency to develop Japanese production of synthetic petrol. To that end machinery to a total value of between £20 million and £25 million was ordered in Germany, and was being gradually delivered until the outbreak of the war between Russia and Germany, which cut the last line of communications through which the machinery could be delivered.

The development of the synthetic oil industry was essentially a war measure. Nevertheless it showed that Japan was well able to improve her foreign exchange position by replacing imports with home-produced materials. Owing to the cheapness of labour in Japan, she would have been able to develop synthetic industries on a much larger scale than this was done in Germany during the same period.

It is therefore evident that even in the absence of control over her living space Japan was well in a position to develop her economic system in accordance with the policy of her choice. Her lack of adequate raw material resources, so far from depriving her of the possibility of normal living, was not even able to prevent her from carrying out an abnormal degree of rearmament and industrial reorganisation within a brief space of time. Japan's capacity to develop her own aircraft industries and other arms industries came as a complete surprise after Pearl Harbour to European and American observers. Those who relied on Japan's inadequate raw material resources, and believed that Japan was entirely incapable of waging a war against

the nations so richly endowed with raw material resources as the Allies, have since had a rude awakening. This experience can be held as a conclusive proof that there was no vital necessity for Japan from any point of view to possess political control over the countries from which she had imported her strategical raw materials.

## CHAPTER III

### “ NEW ORDER ” AND “ CO-PROSPERITY ”

IN centuries gone by conquerors had not considered it necessary to justify their actions before contemporary opinion or posterity. Their superior strength and the success that strength had secured was regarded as sufficient justification if they succeeded, and no amount of justification was of any use if they failed. In more recent times acts of aggression were no longer considered to carry their own justification, and even the most hard-bitten conquerors found it to be to their advantage to put forward excuses. It is true that that arch-cynic of history, Frederick the Great, admitted that his policy was to strike first and leave it to the lawyers to work out an excuse subsequently. It was not until the twentieth century that German propaganda brought the production of excuses for aggression to a fine art. Czecho-Slovakia was invaded at the “ request ” of her President, who asked for German “ protection ”. Before Poland was invaded grave charges were trumped up about the alleged ill-treatment of German minorities. The invasion of Norway was sought to be justified on the basis of the alleged intention of the Allies to invade that country. Neither of these excuses could possibly have been applied in the case of the invasion of the Low Countries, but by that time the propaganda machine of Goebbels had elaborated the most ingenious excuse of all times in the form of the notorious scheme of a “ New Order ” in Europe, under which conqueror and conquered are supposed to benefit by the establishment of European political and economic unity.

Within a few months after the German conquest of Western Europe the “ new order ” had become a household word all over the world. Very few of those who have been using it to describe the German scheme for ruling Europe are aware of the fact that the term is really a Japanese



invention. Years before it appeared in Hitler's vocabulary and while German propaganda was still thriving on alternatively attacking the Treaty of Versailles and demanding self-determination on the basis of that treaty, Japanese propaganda coined the phrase of a "New Order in Asia".

By the time that term became known to those taking an interest in Far Eastern affairs Japan was in full control of Manchuria, Inner Mongolia and parts of Northern China. These territories were not joined to Japan in the same way as were the earlier conquests of Korea and Formosa. Puppet Governments were set up in order to convey the impression that Japan was ruling these countries in co-operation with their populations. When Japan conquered Korea and Formosa she did not consider it necessary to pay lip service to safeguarding the interests of the conquered. Towards the end of the nineteenth century and at the beginning of the twentieth century Japan was still at the stage at which conquest was considered to carry its own justification. In any case it was not until the last World War that unprovoked aggression had come to be regarded as a crime against mankind. This change of attitude, it is true, has failed to deter imperialist countries from committing acts of aggression. It has induced them, however, to pay more attention than in the past to the necessity of producing some kind of excuse. At the time of the "China Incident" Japan had fully realised the necessity of following the example of the European countries in this respect.

We saw in the previous chapter that Japan staked her claim for vast territories on the ground that they belonged to her living space, and that control over their raw material resources and markets was a vital necessity for her. This attitude, which was frankly selfish, was soon followed by a much more hypocritical attitude. While still claiming Eastern Asia as her living space, Japan put forward the doctrine that the conquest of Eastern Asia by her would be as much to the interest of the conquered as to that of the conqueror. In this respect Japan anticipated the German attitude. Some years later Germany discarded the selfish doctrine of *Lebensraum*, which, at any rate, had the merit

of candour, and replaced it with the doctrine of *Grosswirtschaftsraum* (vast territory for the display of economic activity on a large scale). It is based on the gross exaggeration of the advantages of large economic units compared with small economic units. It would be idle to deny the advantages of being able to produce for extensive home markets. The high degree of prosperity achieved in the United States is due to a large extent to this factor, even though the immense natural resources of the country and the energy of its people are at least as important factors. It must be borne in mind, however, that small countries too have been able to achieve prosperity comparable to that of the United States.✓ The examples of Switzerland and Sweden (to mention only those two) show that limitation of territory and of population do not preclude prosperity. This fact is apt to be overlooked by most people hypnotised by the advantages of large free trade areas. On the basis of the exaggeration of the advantages of large economic units, the doctrine was elaborated by Japan, and subsequently by Germany, that these advantages are substantial enough to enable the conqueror to increase the standard of living of the ruling race, and to a less extent also of the subject races. According to this doctrine there would be enough for both conqueror and conquered, even though the conqueror would retain for himself the lion's share derived from the economic unification of the territories.

The Japanese plan for the “New Order” in Asia and the German plan for the “New Order” in Europe were not based solely on the assumption of the advantages of large economic units.✓ That doctrine was reinforced by the claim that the ruling race would be in a better position to organise the economies of the subject races than are their present rulers. Both the Japanese and the Germans have a reputation for organising capacity. Their driving power is superior to that of most races in their respective spheres. This explains why their claim to secure an all-round increase of prosperity carried a certain amount of conviction among the admirers of the two races. Even so, the predominant

majority of the public both in the countries directly concerned and in more distant parts regarded the German and Japanese "New Order" propaganda with profound suspicion.

Originally the Japanese "New Order" propaganda confined itself to Manchuria and China only. Even though the limits of Japan's territorial ambitions were not actually defined, official spokesmen carefully avoided making any reference to claims on American, British, Dutch or French possessions. The only country which was declared to belong to Japan's sphere of interests was Siam, and even that claim was not put forward officially. On the other hand, the Japanese War Party, which was not fettered by official reticence, openly stated its claims on the wealthy countries of the South-Western Pacific. It was an open secret that the Japanese Government was making preparations for invading the Dutch East Indies. Japanese agents were preparing the ground for it for years. Nevertheless it was not until 1940 that Japan officially stated her claim regarding her interests in the Dutch East Indies.

Under the original "New Order" scheme China and Manchuria were to be reorganised under Japanese auspices. Politically this meant first of all the removal of all foreign non-Japanese influences. This was successfully achieved in Manchuria, but in China the International Settlements in the Treaty Ports were allowed to continue even though their activities were often curtailed and interfered with by the Japanese military authorities. Politically, under the Japanese "New Order" scheme, China was to be divided into several separate countries to be ruled by puppet Governments. The quisling régimes of North China and Central China were allowed to retain a show of independence. It was the intention of Japan to set up several more puppet Governments, in addition to those of Peking and Nanking, once the conquest of China was completed. This policy was in accordance with the time-honoured "divide and rule" system. As a single unit China would be a disproportionately large colony for Japan, and it was assumed in Tokyo that, separated into several units, she would be easier to

manage. The idea was to leave Japanese garrisons only in the important strategical points after the conquest was completed, and then to rely on the quisling régimes to enforce Tokyo's dictates.

Economically the Japanese "New Order" scheme claimed to be able to exploit fully China's coal and other mineral resources, and to make better use of China's vast man-power. Chinese labour is, if anything, even cheaper than Japanese, and even more plentiful. The idea was not to establish vast industries in China with the aid of this man-power. On the contrary, from the very outset it was understood that Japan should be the workshop of Eastern Asia. What the Japanese planners of the "New Order" in Asia had in mind was to draw upon China's man-power for Japan's requirements of cheap unskilled labour. At this stage there was no question of de-industrialisation of the Japanese conquered countries. That idea was essentially German, and was subsequently copied by Japanese propaganda. Between 1937 and 1941 there was no trace of any intention of stamping out existing industries on the Asiatic mainland. On the contrary, Japan was rapidly developing certain industries in Manchuria, and was expanding the industries that existed in China. This effort was not incompatible with the idea of developing Japan proper into the workshop of the Japanese Empire. It suited Japan's purpose to tolerate, and even encourage, certain branches of industries in conquered countries. For instance, owing to the presence of iron ore and coal in Manchuria and Northern China, it was in accordance with the interests of the Japanese steel industry that pig-iron should be produced locally and exported to Japan. The same is true regarding the cotton mills in China working with raw cotton grown in Northern China. What was essential from the point of view of the Japanese scheme was that these industries should remain of secondary importance in the economies of the conquered nations, and that they should remain predominantly agricultural countries, depending on Japan as the principal market for their products, and as the principal exporter of the manufactures they need.

From the very outset the establishment of a monetary union constituted one of the most essential points of the Japanese "New Order" scheme. The currencies of the conquered countries were to be based on the yen, and the Yen Bloc was thus to be created. Puppets Central Banks of the countries under the Japanese "New Order" were to issue notes against reserves consisting of yen notes. Their activities would be strictly supervised and guided by the Bank of Japan. For example, the Bank of Manchukuo was entirely run by the Bank of Japan. By such means Japan hoped to achieve monetary stability within the countries under the "New Order".

On the face of it this scheme presented a strong temptation for the Chinese people. After centuries of misgovernment under Imperial rule China became the scene of almost constant upheavals after the overthrow of the Imperial régime. There was incessant struggle between rival generals. Banditry developed to an intolerable degree. Taxation was levied by several rival authorities on the population struggling on the bare subsistence level. Even after the establishment of political stability, economically there was utter chaos in the country owing to monetary instability. The fall in the price of silver and the wild fluctuations of exchanges in Shanghai produced strong unsettling influences. From time to time China was subject to Japanese intervention. Until comparatively recently conditions of security of life and property left much to be desired in every part of China except in the International Concessions.

Notwithstanding this, the number of those who took the Japanese "New Order" at its face value was very small, and even among the more enlightened Japanese themselves it was often referred to as the "New Disorder" in Asia, because so far from creating monetary stability it led to additional complications and confusion in the monetary system of China. The efforts to pretend that Chinese interests would be duly safeguarded under the "New Order" were wasted, for few Chinese were prepared to believe in Japan's unselfish intentions. Their suspicion has

outbreak of the war in the Pacific the term "New Order" was decidedly at a discount in every part of the world.

Nor had the use and abuse of the term by German propaganda contributed towards upholding the prestige and advertising value of the term "New Order". This in spite of the fact that German propaganda had made a much better job of it than Japanese propaganda. Indeed the skill with which the idea of the German "New Order" was launched into a more than half-incredulous world compels reluctant admiration. Such was the skill of the German "New Order" campaign that even in Great Britain and the United States many people were misled into believing that, after all, what was being done in the European continent was really the right thing even though it was happening for the wrong reason, and was made to happen by the wrong people. The German promise of prosperity for the conquered under the "New Order" met with some response even in the conquered countries themselves, and to a large extent it accounts for the relatively large proportion of quislings in certain countries. Business men and others were induced by the "New Order" propaganda to collaborate with the conquerors to a larger degree than they would otherwise have done. Quisling leaders found it extremely useful as an excuse, or, at any rate, as a mitigating circumstance for betraying their country.

Before very long, however, the conquered peoples realised the true nature of Germany's intentions. The discrepancies between their promises and their performances soon became glaringly obvious. Germany has embarked on the ruthless exploitation of all European countries under her control. For details of methods employed and the results I have to refer my readers to my book *Hitler's "New Order" in Europe*. It gives a detailed account of the subtle and unscrupulous methods with the aid of which Germany has plundered all her victims, and it seeks to prove that the permanent aim of Hitler's régime in Europe is to secure one-sided advantages for the conquerors at the expense of the conquered.

✓ By 1941 the German "New Order" in Europe was even

more discredited than the Japanese "New Order" in Asia, though for totally different reasons. The Japanese "New Order" became a standing joke because of its inefficiency. Nobody can accuse the German "New Order" of being run inefficiently. If, in spite of this, it came to be regarded as a joke it was because the Germans allowed themselves to be found out regarding their true intentions under the "New Order". Before very long after the German invasion of Western Europe the term had come to be regarded as being synonymous with plunder, and the entire German "New Order" propaganda had come to be looked upon as the supreme example of hypocrisy. In these circumstances it was not surprising that when Japan embarked upon her new series of conquest in the South-Western Pacific, her propaganda machine was reluctant to continue to use the discredited term "New Order". It felt the necessity of turning over a new leaf by coining a new term instead. Henceforth the newly-acquired countries were referred to as the "Co-Prosperity" Sphere in Eastern Asia. This term roughly corresponds to the German term *Grosswirtschaftsraum*, which has, to a large extent, replaced the term "New Order" in the vocabulary of German propaganda, although the change was not as complete as in the case of the Japanese propaganda. "Co-Prosperity" Sphere is, as a matter of fact, a much better advertising slogan than *Grosswirtschaftsraum* because it implies not only economy on a vast scale, but also the sharing amongst all participants of all benefits derived from that economy. Nevertheless, Mr. Eden was right in remarking that "Co-Prosperity" Sphere reminded him of the prospectus of some fraudulent company promoter.

In order to convince the populations concerned that they would be prosperous under the new Japanese rule it would be necessary for Japanese propaganda to prove: (1) that under the new régime the economic resources of the conquered countries would be exploited more effectively than they were under the pre-invasion régimes; (2) that the native populations would receive a fair share of the surplus thus to be created.

Japanese propaganda is at pains to prove that the "Co-Prosperity" area is to a large degree a self-sufficient unit. An international division of labour on a vast scale is to be put into operation. In accordance with the plan Japan is to become the workshop of the whole "Co-Prosperity" area. In this respect Japanese and German ideas seem to be identical. In the case of both countries the rôle of industrial producer is to be retained by the ruling races, partly because it secures a higher standard of living, but mainly because it secures the power with the aid of which the subject races can be kept in permanent subjection. If the subject races are deprived even of the limited industrial capacity which they possessed before their conquest, or at any rate they are not allowed to develop their industries freely, they will necessarily remain at the mercy of their conquerors unless and until they are liberated by outside intervention. From an economic point of view this very one-sided division of labour is calculated to benefit the Japanese people in Asia, as in Europe it is calculated to benefit the German people.

The innocent reader or listener to "Co-Prosperity" propaganda is apt to be misled by the catch-phrase of "division of labour", the advantages of which have been deeply ingrained into our consciousness by the teachings of economists ever since Adam Smith. There can be no doubt that the enforcement of a division of labour tends to increase the total production of wealth of the territory concerned. This does not necessarily mean, however, that all sections of the populations of these territories stand to benefit by the increase. The experience of the Austro-Hungarian Customs Union until 1918 proves that division of labour between the ruling races and the subject races is apt to work out to the advantage of the former and to the disadvantage of the latter. The standard of living in Hungary remained considerably below that of Austria because the Customs Union prevented the development of Hungarian industries in competition with the well-established Austrian industries. In the case of the German "New Order" in Europe or the Japanese "Co-Prosperity"



Sphere in Asia, distribution of industrial resources would not be left to the free play of competition as it was in Austria-Hungary. The subject races would be kept de-industrialised, and most industries would be concentrated in Germany or Japan respectively. We saw earlier in this chapter that the original Japanese "New Order" scheme did not aim at the de-industrialisation of the conquered countries, and that, in fact, their industries have been developed under Japanese control. After the conquest of the countries in the South-Western Pacific, however, the Japanese "New Order" propaganda took a leaf out of the book of the German "New Order" propaganda, and laid much stress on the intentions of developing Japan to become the workshop of the "Co-Prosperity" Sphere. The extent to which the execution of this plan would involve actual de-industrialisation would be limited, however, by the fact that, apart from Shanghai and a few other centres that came under Japanese control since December 1941, the conquered territories are essentially agricultural. The difference in practice between the application of the principle in German-controlled Europe and Japanese-controlled Asia is that, while in the former it would involve demobilisation of industries on a large scale, in the latter it would consist mainly in the prevention of the development of industries which Japan would wish to reserve for herself.

In theory, at any rate, such division of labour as is envisaged by Germany in Europe and Japan in Asia is calculated to lead to an increase of the total production of wealth in their respective spheres. On the other hand, a substantial part of the existing system of production is intended to be stamped out or converted in order to increase the self-sufficiency of the German *Grosswirtschaftsraum* and of the Japanese "Co-Prosperity" Sphere. Before the war the European continent produced largely for the requirements of overseas countries including Great Britain. The entire dairy farming system of Denmark, for instance, was based on British consumption. Being cut off from the British markets, Denmark was forced to liquidate a large

part of her dairy farming and to replace it by considerably less remunerative wheat-growing, in accordance with Germany's requirements. The value of Denmark's agricultural output is, consequently, much lower than it was before Continental division of labour was forced on her.

This situation exists to a much more pronounced extent in the Japanese "Co-Prosperity" Sphere. The contention of Japanese propaganda that Japan and the newly-conquered territories constitute a largely self-sufficient economic unit has already been proved false. It is obvious that Japan is unable to absorb more than a fraction of the sugar and rubber production of the South-Western Pacific, to mention only those two commodities. The rubber-producing countries are forced to switch over to the production of rice, maize and vegetables, while the sugar-producing countries, especially Java and the Philippines, are forced to replace a very large proportion of their sugar-cane plantations by cotton-growing. Now the chances are that natural conditions are less favourable for the production of cotton than for the production of sugar, and that, consequently, the net result of the change will be a decline in the value of the total output of the countries concerned.

At the present stage it would be impossible to draw a balance-sheet of the economic gains and losses resulting from the creation of the "Co-Prosperity" area. It is, therefore, impossible to disprove the Japanese claim that the value of the total production of that area would increase as a result of the change of régime and of the economic system. Nevertheless, it is safe to claim that the gains derived from the change will be largely offset by the losses suffered through it.

When it comes to considering whether, in distributing the total production, the share of the native populations will increase or will be reduced, we are largely in the realm of conjecture. Even if the Japanese claim that the total output will increase could be accepted, it would not necessarily mean acceptance of the Japanese claim that the native populations would be better off than before. We know for a fact that this was not the case in Formosa,

Korea or Manchuria. In the latter, especially, the fall in the production of the soya beans and other staple food of the population, without a corresponding fall of exports in these products, seems to indicate the contraction of consumption and a decline in the standard of living. In any case, students of Japan's national character would find it difficult to believe that the Japanese as a race will be capable of generosity and unselfishness towards other races. The ruthless exploitation of the Japanese working classes, which are kept on a very low standard of living for the greater glory of Japan, is a fact which does not exactly encourage sanguine anticipations on the part of the subject races. After all, if even the ruling race is exploited to such an extent, how can the subject races expect to be treated generously? And, while in the case of the ruling race the maintenance of a low standard of living is considered a necessary evil pending the acquisition of the wealth of conquered countries, the inhabitants of the latter have nothing to look forward to but exploitation to the limit of possibility without any hope of relief.

Beyond doubt Japan could afford to be generous towards the subject races if she wished, not so much because of the increase of production as owing to the expropriation of the European and American capital invested in the conquered countries. The resources of these countries have been developed with the aid of capital invested by British, American and Dutch Governments and investors. A certain proportion of the products of the industries and means of communication established with the aid of this imported capital was earmarked for interest and dividends. That proportion was, generally speaking, a small percentage of the total increase of wealth in the countries concerned, brought about by the European Powers and the United States, but it was admittedly not a negligible item. It is evidently the intention of Japan not to recognise any holding of securities or any property rights owned by non-Asiatics in the conquered countries. In this respect she appears to have no intention of discriminating to any extent between Allied and Axis nationals. German investors who

bought large amounts of Dutch East Indies securities on the Amsterdam Bourse live in hopes that their Government will be able to persuade the Japanese Government to recognise their holdings. In reality the admission of their claim would depend, in case of an Axis victory, on the balance of power between Germany and Japan. The present intention of Japan is to repudiate all European and American investments without discrimination. It seems highly unlikely that she would wish to rob the foreign investors for the sake of the native populations of the conquered countries. What probably happens (what has, in fact, already happened), is that Japan simply takes the place of the expropriated owners, and profits made by the companies established by European or American capital will simply flow into her pockets.

It is reasonable to assume that the same attitude will be adopted towards any increase of production that may be obtained through a reorganisation of the conquered countries. Those who are inclined to believe in the promise of the "Co-Prosperity" propaganda, or, at any rate, who are not prepared to dismiss altogether those promises as sheer hypocrisy and deception, should examine the conditions prevailing in Japan's old possessions. Japan has possessed Korea and Formosa now for a number of decades. She had every opportunity of putting into practice her lofty ideals of "Co-Prosperity". Why, therefore, has she failed to do so? The native populations of Korea and Formosa have been thoroughly exploited. There has been no attempt at obtaining their co-partnership in the working of the industrial resources of the country. In the case of Formosa, 95 per cent of the capital invested is in Japanese hands. The local population is reduced, for the most part, to a rôle of unskilled labour and the management is almost exclusively Japanese.

When Japanese spokesmen talk for home consumption they are somewhat more inclined to indicate their real intentions. They do not go so far in this respect as their German opposite numbers, who, when speaking for home consumption, candidly declare that the *Herrenvolk* must

have a higher standard of living than the subject races under the "New Order" in Europe. Japanese spokesmen have, so far, abstained from such open statements as far as it is possible to ascertain from this side. On the other hand, there are certain references to details in the Japanese Press which indicate that the Japanese intention towards the subject races is identical with the German intention. A Japanese trade paper quoted by the German Press declared in July 1942 that in the past Japanese exporters had to exert themselves to the limit of their capacity to be able to undersell their non-Asiatic competitors. Henceforth they will be able to charge higher prices in the absence of all competition. This means that for the same quantity of raw materials which they will import from Java they will have to sell less Japanese manufactures than they did in the past. The Javanese will have to work harder to secure the same quantity of manufactures as before the invasion, or else they will have to be satisfied with a smaller quantity.

Another point which is worth our attention is the increase of Japanese imports of sugar, tobacco, etc., from the Dutch East Indies. Japanese writers on the subject triumphantly point out that the conquests have already enabled Japan to increase the standard of living of her population, even though measures to that end are at present handicapped by lack of shipping space. The proverbial low standard of living of the Japanese working classes would soon be a thing of the past after the war. Gratifying as this may be from a general point of view, it must be remembered that such an increase of the standard of living of the Japanese ruling race is likely to absorb such surplus production as may be obtained in conquered countries as a result of their organisation under the "Co-Prosperity" scheme, and of the expropriation of non-Asiatic capital.

It is always difficult to produce actual evidence to prove or disprove claims regarding future intentions. Japanese propaganda has no evidence to offer that under the Japanese "New Order" the subject races would be treated generously. Our evidence is confined to facts showing that, up to the time of writing, the Japanese attitude towards the

conquered races has been anything but generous, not only in relation to recently conquered peoples but also in relation to peoples conquered some time ago. While the greedy and selfish attitude adopted by the conquerors in recently acquired countries can be explained, if not excused, on the basis of military necessity, this argument does not apply to countries which had been under Japanese occupation over a period of many peaceful years. Although the past experience of Japanese-conquered countries does not provide actual evidence concerning Japan's future attitude, those facts, together with the well-known characteristics of the Japanese race, are sufficient to inspire grave doubts of the sincerity of the Japanese promises.

## CHAPTER IV

### POLITICAL ASPECTS OF THE "CO-PROSPERITY" SCHEME

IN this book we are mainly concerned with the economic aspects of the Japanese scheme for a "New Order" in Asia. Nevertheless the subject cannot be adequately covered without due attention being paid to its political aspects. For one thing, the economic control of Japan over the conquered territories that is essential in order to apply the "New Order" scheme would be inapplicable without the acquisition of full political control over these territories.

Although the "Co-Prosperity" scheme claims to be based mainly on economic considerations, in reality, as we saw in Chapter II, the economic argument is merely used as an excuse for military conquest. The chances are that if Japan's choice lay between military occupation of Asia without any economic advantages and full economic advantages without military occupation she would unhesitatingly choose the first. And so would every nation that has developed a lust for conquest.

Japanese propaganda is at pains to present the political philosophy, which is claimed to serve as a basis for the "Co-Prosperity" scheme, as a Monroe doctrine for Asia. Japan claims to have assumed the rôle of the champion of the yellow and brown races against their domination by the white race. The analogy is, however, entirely false. While the Monroe doctrine confines itself to barring any new non-American penetration into the American continent, Japan goes much further and aims at ejecting from Asia all existing non-Asiatic Powers. Its object is not to preserve the *status quo* but to change it. A much more important difference is that, while the object of the Monroe doctrine is to safeguard the nations of the Western Hemisphere from coming under foreign domination, the Japanese "New Order" scheme aims at subjecting the Asiatic race to Japanese domination.

The exact political scope of the "Co-Prosperity" scheme has never been adequately defined. For the moment Japan's "crusade" is directed against the European Powers and the United States, but sooner or later Russia is likely to be classed in the category of European nations which are to be ejected from Asia. The Japanese doctrine of "Asia for the Asiatics" is essentially elastic. On the occasion of the conclusion of the Russo-Japanese Non-Aggression Pact in 1940, the Japanese negotiator declared that he regarded Stalin as a fellow-Asiatic. There can be no doubt, however, that as soon as Japan is ready for the invasion of Siberia Stalin will be declared to be essentially European. In this respect the Japanese follow the noble example of the Germans, who are fully prepared to abstain from the direct application of their racial doctrine whenever opportunist considerations are against it. Thus Japanese people and Hungarian people have come to be regarded in Germany as honorary Aryans, and no German newspaper is allowed to record the elementary scientific fact that they are non-Aryans. Japan is returning the compliment to Germany, and is treating Germans in the Far East as honorary non-Aryans. While immediately after the conquest of the Philippines local military authorities were not inclined to discriminate between the various white races, subsequently the privileged position of Germans was admitted. For instance, in Shanghai German merchants were given licences to trade.

Other minor temporary departures from the doctrine of "Asia for the Asiatics" have been the maintenance of a nominal French régime in French Indo-China, and the decision to abstain from occupying the Portuguese colony of Macao. This latter cannot easily be reconciled with the Japanese conquest of Timor. The explanation is simply that in the case of the latter military necessity prevailed while the occupation of Macao was not considered urgent. The French civil administration, which has very little effective power, is tolerated in Indo-China for the time being at Berlin's request, merely to save the face of the Vichy Government which handed over the colony to Japan.



Originally the Japanese "New Order" scheme was intended for China only. During the late 'twenties and early 'thirties, when Germany was, from a military point of view, a *quantité négligeable*, there appeared to be no prospects of a successful war against the combination of European Great Powers and the United States in order to realise the dream of the conquest of Asia. The Japanese are an essentially realistic race, and until comparatively recently they confined their ambition to the conquest of China. It was a task that would have been in itself sufficient to occupy Japan for at least a generation. It would have required decades to complete and consolidate the conquest of China and to organise the Chinese people under Japanese rule. The experience of Germany and Italy has shown, however, that a militaristic régime has no patience to wait until its conquests are digested before it embarks on the next conquest. In the case of Japan, long before the conquest of China was completed the prospect of other conquests appeared on the horizon. From the middle 'thirties it became evident that before very long the European nations would be fully preoccupied with their own troubles, and would be unable to concentrate adequate strength for the defence of their Asiatic possessions. As and when the European political situation deteriorated Japan's appetite increased. By the time of the outbreak of the European war Tokyo came to the conclusion that the task of completing the conquest of China could wait until after the ejection of the European Powers and the United States from Japan's expanded sphere of interest. In any case, it was assumed that once China was no longer supported by European Powers or the United States her resistance would collapse. The campaign in China was, therefore, pursued half-heartedly only. A large part of Japan's fighting forces was kept in reserve while awaiting the opportunity to attack Great Britain, the United States and the Dutch East Indies.

After the outbreak of the war in the Pacific, Japan proclaimed openly the extension of her territorial claims. She has not yet stated, however, the actual limits of these

claims. For the present Japanese propaganda talks about the "Co-Prosperity in Greater Eastern Asia", thereby implying that Japan does not intend to acquire the entire Asiatic continent. In reality, if the conquest of China were completed this itself would bring Japanese penetration very near Western Asia. Nor is it possible to believe that Japan has no ambitions regarding India. For the moment it would be very bad diplomacy for Japan to declare her intention to secure domination over India. Such a declaration would open the eyes of many Indians who, at present, are actively engaged in an attempt to shake off the British rule without realising that the alternative would not be independence but Japanese rule. Yet, it should be obvious to everybody that the Japanese "Co-Prosperity" Sphere could not be complete from an economic point of view, or even from a political point of view, without securing the domination of India. Economically the so-called "Co-Prosperity" Sphere would be short of cotton in spite of all efforts to introduce cotton-growing in the new Japanese possessions of the South-Western Pacific. Politically an India under British rule, or even an independent India, would be regarded as a potential menace to Japanese rule in Eastern Asia.

It seems certain that nothing short of the complete conquest of Asia would satisfy Japan. Nor are Japanese aims confined to the Asiatic continent. For both economic and strategic considerations Japan would not rest until she secured full possession of all the islands in the Pacific between North America and Asia, including the continent of Australia. Strategically, this is considered necessary in order to safeguard Japan against attack from the U.S.A. Economically, the conquest of Australia and New Zealand is considered essential owing to the inadequate wool resources of Eastern Asia. For strategic considerations Japanese aims extend over Alaska and, possibly, even the west coast of Canada, the United States and Mexico, where Japan might like to possess strong bridgeheads. Madagascar and the east coast of Africa comes also within the Japanese sphere of ambitions. The crusade against

non-Asiatic rule in Asia does not preclude Japan from aiming at Japanese rule well beyond Asia.

This is not the only point in respect of which the hypocrisy of the slogan of "Asia for the Asiatics" is evident. A much more striking proof that Japan's self-imposed rôle of champion of the Asiatic races is utterly false is her attitude towards the peoples of the Asiatic countries under Japanese control. In Formosa and Korea, where Japan has been in possession for a long time, she is regarded with bitter hatred by the native population, which is longing to shake off its Japanese yoke. In China, too, only a very small number of quislings have accepted Japanese domination. The overwhelming majority of the Chinese people realise that Japan is guided by one-sided Japanese interests only. The most recent experience in regard to the Japanese attitude towards the Asiatic races has been the behaviour of Japan towards Siam. Formosa, Korea, Manchuria, part of China and the various American, British and Dutch possessions have been acquired by force of arms. On the other hand, Siam has been Japan's ally, and willingly admitted the Japanese troops on their way to conquer Malaya and Burma. The Siamese Government succeeded in hoodwinking world opinion to the very last moment by pretending to be determined to resist Japanese aggression. Allied strategy was based on the assumption that Siam would hold up the Japanese onslaught for at least a short time. To that end Siam was actually assisted by arms deliveries to the eve of the Japanese declaration of war. Japan owed Siam a debt of gratitude for facilitating her invasion of the Malayan Peninsula, and for actively collaborating in the invasion of Burma. Her relation to Japan is somewhat similar to the relation of Rumania, Hungary and the other minor satellite States to Germany, and Japan's treatment of Siam is also very similar to Germany's treatment of these minor vassal States.

If Japan's intentions of liberating Asia were sincere she would have treated Siam as an ally on an equal footing. In reality, as we shall see in a subsequent chapter, the treatment of Siam differs but little from the treatment of

conquered countries. Siam is entirely dominated by the Japanese authorities which ruthlessly exploit her, and impose on her demands far beyond immediate military requirements. Even though the Siamese Government may have benefited by its policy of co-operation (just as Quisling and Laval have benefited by betraying their countries to Germany), the Siamese people has certainly derived no benefit from it. It is evident that Japan's true political aim is not "Asia for the Asiatics" but "Asia for the Japanese".

We saw above that Japanese aims are not even confined to the borders of the Asiatic continent. The question is : Does Japan, like Germany, entertain ambitions of world conquest ? Without having any evidence to that effect, it seems reasonable to assume that, once her ambition to control Asia, Australia, the west coast of America, and the east coast of Africa is satisfied, Japan's appetite will further increase. For the moment it is to her interest to moderate her demands for the sake of collaboration with Germany, but in the long run there could be no lasting collaboration between a successful Japan and a successful Germany. Both of them would inevitably covet the same territories. Germany regards Africa as her exclusive preserve and has very definite claims on the Middle East in general. In this respect she would inevitably come into conflict with Japan. For the moment Germans are treated in Tokyo as honorary Asiatics, just as the Japanese are treated in Berlin as honorary Aryans. Should both ambitious nations be successful, sooner or later they would find themselves confronted with each other in a fight for world domination.

Both Germans and Japanese are pursuing one end : to make full use of each other before their eventual clash. They compete with each other in exchanging compliments, but beneath the surface of their relations there are already undercurrents at work which, in the course of time, might develop into a grave conflict. The chances are that it will never come to an open clash between Japan and Germany for the simple reason that the United Nations will keep them well apart. Should the fortunes of war, however, be

such as to enable the two senior partners in the Axis to establish direct contact, tension would inevitably develop between them even during the war. There is reason to believe that, with a little pressure on the part of Germany, the Vichy Government could have been induced to surrender to Japan Madagascar as she surrendered Indo-China. This was not done, because Germany coveted Madagascar for herself, and, knowing that once Japan had established herself there it would be difficult to dislodge her, no efforts were made to secure the surrender of Madagascar. Thanks to this rivalry within the Axis, the United Nations were given a chance to seize that strategically vital island.

It is an open secret that Germany wishes to secure for herself the Dutch East Indies. At the time of the conquest of Holland and the collapse of France, when it appeared as though the war in Europe was practically over, Japan hastened to declare that she would not tolerate any transfer of the control of the Dutch Colonies in Asia. This declaration was directed as much against Germany as against Great Britain and the United States. Germany had every intention of claiming for herself the Dutch Colonies on the ground that Holland was under her "protection". Had the outcome of the Battle of Britain not stopped the German triumphal march, sooner or later Germany would probably fight Japan for the possession of the Dutch East Indies.

Japanese propaganda in Asia as German propaganda in Europe is unable to make up its mind whether the "New Order" is supposed to be already in operation, or whether it is supposed to be deferred until after the war. Various spokesmen frequently contradict each other and even themselves in this respect. In reality it is already being applied, politically at any rate, in the territories actually conquered and those surrendered without resistance. There can be no doubt that Japan intends to maintain full political control over the "Co-Prosperity" Sphere. She may allow some of the peoples to maintain a certain degree of nominal independence. In this respect her attitude to the various

identical in relation to all her victims. In German-controlled Europe certain nations, especially the Russians and Poles, are not allowed even to retain their local administration. In other countries, such as Holland, Belgium, France, etc., the work of local administration is carried on by the local authorities under German instructions. In other countries, such as Czecho-Slovakia, Norway, Serbia, Greece, etc., quisling Governments are set up under German control. Again, Denmark, Hungary, Roumania and other satellite States are allowed to retain the Governments of their choice so long as these Governments take their orders from Berlin. If they show too much independence, the local Nazi parties are mobilised against them, but usually the mere threat of this is sufficient to induce them to obey Berlin's instructions without fail. Finally, there was the Vichy Government which was under German domination even during the period when the territory under its administration was not occupied.

It seems reasonable to suppose that there is a similar variety of outward forms of government in Japanese-occupied Asia. Most of the newly conquered territories are simply under Japanese military administration even though in some of them the local authorities have retained a certain limited sphere of function. In Manchuria and China quisling Governments have been set up. In French Indo-China and Siam the pre-invasion Governments were allowed to remain in power. This is a much more convenient system than the assumption of full Japanese administration. For one thing, the territories concerned are so vast that Japan would be unable for a long time to provide any experienced administrative machine for all. For the time being she would have to be content with appointing her men in key positions. The permanent military occupation of her vast territories would be an even more difficult task. It would mean that Japan would have to remain fully mobilised in perpetuity, which, in the long run, would lead to grave discontent. In reality, there is no need for Japan to maintain full military occupation in order to secure full political control. Once the resistance of those opposed to the régime

is completely broken, it would be sufficient for her to keep garrisons in strategic points and leave the rest to the various puppet Governments. Japan is in a position to safeguard herself against the danger of the conquered peoples shaking off her yoke by concentrating all arms industries in her own territory. Modern wars necessitate elaborate arms, and these arms cannot be produced quickly without well-established industries. It is one of the main objects of the "Co-Prosperity" scheme to concentrate practically all strategic industries in Japan proper, and to deprive the conquered peoples of the means for recovering their freedom. Once this is achieved, the risk of internal risings in the "Co-Prosperity" Sphere would become negligible.

There would be, of course, the risk of the liberation of the conquered peoples by outside Powers. It is precisely because of this risk that Japan is anxious to secure bases outside Asia. Once in control of strategic points along the west coast of the American continent and the east coast of the African continent, she could reduce the risk of the re-conquest of Asia by maintaining strong garrisons in the outlying posts. In this way she would pursue a policy similar to that of the Roman Empire, which maintained most of her legions along the borders of her outlying possessions.

Such arrangements would not require the full mobilisation of Japan's man-power, especially as in the course of time the various quisling Governments would provide substantial auxiliary forces to complete the Japanese occupation armies. This has already been done in German-occupied Europe where the satellite Powers have been forced to send many divisions to Russia. Possibly Japanese man-power permanently withdrawn from productive activity would be replaced by imported workmen as in Germany. One thing is certain. The maintenance of the Japanese Empire would require permanently vast military expenditure. This factor would go a long way towards absorbing such economic advantages as may be derived from the application of the economic "Co-Prosperity" scheme.

## CHAPTER V

### ECONOMIC ASPECTS OF THE "CO-PROSPERITY" SCHEME

THE same vagueness which characterises the official Japanese attitude towards the political aspects of the so-called "Co-Prosperity" scheme also prevails concerning its economic aspects. It is by no means easy to compile from official materials, nor from inspired writings or statements on the subject, a comprehensive description of the economic aspects of the Japanese "New Order". As in the case of German statements on Hitler's "New Order" in Europe, they have been subject to frequent changes in the course of time, and even at any given moment they are frequently contradictory. The volume of material on which we can draw for compiling our summary is not nearly as plentiful as it is in the case of Germany. For obvious reasons the Japanese Press is inaccessible, and we have to rely on such summaries of statements or articles as the Domei Agency chooses to broadcast or the German Press correspondents in Japan choose to cable over to Europe. The task of compiling the main points of the "Co-Prosperity" scheme is, therefore, very much like making bricks without straw.

The following main points of the Japanese economic policy under the "Co-Prosperity" scheme are, nevertheless, discernible from the available material :

(1) A high degree of economic planning will be applied to the conquered territories. It will be directed from a central planning authority in Japan.

(2) Agricultural production will be subject to drastic readjustment. The production of certain goods in excess of the requirements of the "Co-Prosperity" Sphere will be reduced, while the production of other goods needed by the "Co-Prosperity" Sphere will be increased.

(3) The mineral resources of the "Co-Prosperity" Sphere will be exploited to the full in so far as the present output does not fully cover the requirements of the "Co-



Prosperity" Sphere plus the quantities needed for the accumulation of strategical reserves.

(4) Industrial production will be concentrated in Japan itself. The conquered countries will only be allowed to retain or develop secondary industries connected with their agricultural or mineral production.

(5) The principle of international division of labour will be applied extensively. The economies of various parts of the "Co-Prosperity" Sphere will be adapted to that of Japan and those of the other parts of the "Co-Prosperity" Sphere.

(6) Consumption in the "Co-Prosperity" Sphere will be influenced with the object of being able to cover requirements out of the resources of the particular countries concerned, and out of the resources of the other members of the "Co-Prosperity" Sphere in preference to outside countries.

(7) The Transport System of the "Co-Prosperity" Sphere will be reorganised to reduce its dependence on sea communications. To that end the Japanese authorities are planning to build extensive railways and roads.

(8) In matters of foreign trade with countries outside the "Co-Prosperity" Sphere the "Co-Prosperity" Sphere will act as one single unit. It will deal as such with other similar groups of countries, such as the group of the German "New Order" in Europe or the American Bloc.

(9) Currencies of all Japanese-controlled countries will be based on the yen. Each country will have a note-issuing authority of its own, and the reserves of this authority will consist of a yen balance with the Bank of Japan.

(10) After initial devaluations of the currencies of conquered countries, stability at the new parities will be maintained in the "Co-Prosperity" Sphere. Eventually the yen will be adopted as the monetary unit everywhere.

(11) The Bank of Japan will have a central gold reserve to secure the yen, which will be the foundation of all other currencies. No attempt will be made, however, to maintain a ration between the gold stock and the volume of currency and credit.

(12) The monetary policy pursued will be one of expansion in accordance with the requirements of production.

(13) The authorities will aim at maintaining a steady price level with the aid of extensive price control and direct Government intervention in the market.

(14) Tokyo will become the international financial centre of the "Co-Prosperity" Sphere, catering for the financial requirements of Japanese-controlled Asia, and acting as intermediary between Asia and the other continents.

(15) A system of multilateral exchange clearing will be established in Japanese-controlled Asia, with Tokyo as the clearing centre. Under this system each country of the "Co-Prosperity" Sphere will have a clearing account in Tokyo, and will settle its liabilities in relation to other countries of the "Co-Prosperity" Sphere by drawing on its clearing balance.

On paper this scheme sounds interesting and attractive. We propose to examine in the following chapters if, and to what extent, the experience of Japanese rule in the conquered countries justifies the assumption that in practice the scheme will be applied satisfactorily, if, indeed, it will be applied at all. At the present stage, the Japanese "Co-Prosperity" scheme calls for some observations of a general nature.

(1) The possibility of a central plan for such a vast and diversified area as Japanese-occupied Asia has its limitations. This is actually admitted by Japanese spokesmen. Although the Asiatic Planning Board has been for some time in operation, and a separate Ministry has just been created for the purpose, the experts engaged in the task are aware that they have to confine themselves to laying down very broad outlines, leaving actual planning to the "men on the spot".

(2) The extent to which artificial readjustment of agricultural production can be carried out satisfactorily has its limitations in natural conditions. It remains to be seen whether the climates of the Dutch East Indies, the Philippines and the other new Japanese possessions will prove

to be suitable for cotton-growing on a large scale, which is one of the many objects of the Japanese scheme for the reorganisation of agriculture. It is easy to enforce a radical reduction in the production of cane sugar or rubber, but it is much more difficult to introduce new crops by a stroke of the pen.

(3) It may take some time before the Japanese rulers will be able to replace the large number of European and American engineers formerly employed in the mines and oilfields now under Japanese occupation. The first task is to reconstruct the mines, many of which suffered heavily through the "scorched earth" policy of the Allies. Owing to the lack of skilled technicians and adequate machinery, it will take a very long time before the exploitation of mineral resources will even reach its pre-war level, let alone exceed it materially. This is true particularly concerning the oilfields, the destruction of whose equipment has raised a particularly difficult problem.

(4) The majority of industries in occupied countries is closely associated with their local agricultural and mineral production. The removal of such industries to Japan would mean that instead of having to transport finished products it would be necessary to transport raw materials, and this would place considerable additional strain on Japan's shipping, rail and road facilities.

(5) It is mainly owing to the shortage of transport facilities that the principle of international division of labour will not be carried very far, at any rate during the war. At present the various countries within the "Co-Prosperity" Sphere are actually encouraged to become much more self-sufficient than they were before the war. Japan's policy aims at the increase of local food production, the production of synthetic oil out of rubber and cane sugar to obviate the necessity for importing mineral oil from the neighbouring States. The restriction of production of exportable surpluses is the net result of the application of such measures. There is undoubtedly much less international division of labour in Japanese-occupied Asia now than there was before the invasion.

(6) In pursuit of the plan for the local self-sufficiency of countries within the "Co-Prosperity" Sphere the Japanese authorities are endeavouring to force consumers to change their long-established customs and to grow accustomed to different kinds of foodstuffs. This is perfectly feasible, but not likely to contribute to the popularity of the Japanese régime, as primitive peoples are conservative in their habits.

(7) Although the shortage of shipping space, which compels Japan to aim at the local self-sufficiency of countries in the "Co-Prosperity" Sphere, is temporary, it is the intention of Japan to reduce permanently, as far as possible, the dependence of the "Co-Prosperity" Sphere on long lines of transport by sea. This is in order that the extent to which Japan would be exposed to blockade in the next war should be reduced. Since Japan is an island, her dependence on sea communications with her outlying colonies cannot be avoided. The lines of sea routes can be shortened materially, however, through the construction of railways and roads on the Asiatic mainland. One of the schemes under consideration is to link up Shanghai with Singapore by a railway line, so that goods from the Malayan Peninsula and the Dutch East Indies need not be transported all the way by sea. The execution of this gigantic scheme would involve immense effort, and transport by land would necessarily be incomparably more costly than by sea.

(8) Without doubt there are advantages in dealing with outside countries in matters of foreign trade as a single huge unit. The bloc as a whole stands to benefit by eliminating competition between its members and by appearing in the world market as one large customer and one large seller. Whether all members of the group stand to benefit by the arrangement or only the ruling race, that is, of course, a different question. Japan is already engaged in destroying the capacity of various countries of the "Co-Prosperity" Sphere to produce a large surplus for export outside the "Co-Prosperity" Sphere. She is likely to destroy much profitable export trade for the sake of diverting the production capacity of the subject races to the production of goods

required by her or by the "Co-Prosperity" Sphere. As for import trade, it will be planned mainly, if not exclusively, in accordance with the requirements of Japan. The subject races will have to do without most of the goods that cannot be produced within their own boundaries or within the "Co-Prosperity" Sphere.

(9) The subject races stand to gain nothing by the arrangement to make their currencies dependent on the yen. It will only increase their economic and political dependence on Japan, and will increase the losses they will suffer after their liberation. Not only will they lose the amount of the military yen issued by the occupation authorities, but also that of the reserves kept with the Bank of Japan.

(10) Judging by the degree of devaluations carried out already in some conquered countries, their currencies are likely to be stabilised at an unduly low level. Consequently, Japan will derive considerable advantages through the artificial overvaluation of the yen as a result of which comparatively small amounts of Japanese exports can pay for Japanese imports of a much higher value.

(11) Statements about Japan's attitude towards gold have been rather contradictory. Even members of the Government have expressed divergent views. Some of them are inclined to agree with Germany that gold is to play no part at all in Japan's internal economy, and will only be used for the settlement of balances outside the "Co-Prosperity" Sphere. Others, however, hold the view that it would be in accordance with Japan's new position as a World Power to build up a large gold reserve to secure the note issue of the Bank of Japan and, indirectly, the note issue of the entire "Co-Prosperity" Sphere. Since, however, gold production in the Philippines and other parts of the "Co-Prosperity" Sphere is moderate, it seems unlikely that Japan will be able to build up a large gold reserve during the war.

(12) Ever since the beginning of the so-called "China Incident", Japan has been pursuing an expansionary monetary policy. A similar monetary policy will be pursued in

the conquered countries. It seems probable, however, that most of the benefits derived from such a policy will be retained by Japan, while the burden of the inflated currencies will be borne by the local populations. In the long run the success of maintaining a steady price level depends on the Government's power of absorbing purchasing power and providing adequate quantities of goods to satisfy consumers. There is no reason to suppose that the Japanese Government in this respect will be any less successful than the German Government, though even in Germany the system has not been as water-tight in 1942 as in previous war or pre-war years. The maintenance of the stability of prices in the conquered countries is likely to be as difficult as in German-occupied Europe. For the present, no major difficulties have been experienced in that respect in most occupied countries because, as we shall see in a later chapter, Japanese occupation produces mainly a deflationary effect. Ultimately, however, it will be difficult to counteract the effects of credit expansion, especially as the quantity of goods available for local consumers will be materially reduced through Japanese plunder.

(13) Tokyo, like Berlin, entertains ambitions of becoming an international financial centre without possessing the capital resources required for that purpose. Japan, like Germany, is at present engaged in borrowing from her victims instead of lending to them. The subject races are compelled to keep balances in Tokyo, and are unable to withdraw the proceeds of their exports to Japan. Such compulsory and frozen balances, however, constitute a very unsatisfactory beginning for an international banking centre.

(14) A multilateral clearing system in the "Co-Prosperity" Sphere is not likely to work any more successfully than the similar system established under the German "New Order" in Europe. The main source of difficulties is that all the conquered peoples have credit balances in their clearing accounts in relation to Japan, just as conquered European peoples have credit balances in their accounts in relation to Germany. This means that there

is no possibility of a satisfactory clearing through off-setting credit balances against debit balances. Germany with her twelve years' experience of the clearing system has been unable to secure the satisfactory working of the multilateral system under the "New Order". Japan had no previous experience in exchange clearing, and in spite of German advice she will find the task even more difficult than Germany does.

The above critical remarks are not claimed to be a complete answer to the Japanese "Co-Prosperity" propaganda. In order to be able to refute it, it is necessary first to examine the actual experience of economic developments under the Japanese régime in the conquered countries.

As in the case of German-controlled Europe, so in the case of Japanese-controlled Asia, it is necessary to bear in mind the following consideration: the primary aim of both Germany and Japan is to win the war. This means that the requirements of the development of their respective "New Orders" have to be subordinated for the duration to the immediate requirements of their respective war economies. This argument is resorted to by German and Japanese propaganda to provide an excuse for the non-fulfilment of the promises made to the conquered peoples. It lends itself as an excuse for ruthless exploitation, and it also explains in part why the conquered countries have not yet been de-industrialised in accordance with the "New Order" scheme. In German-controlled Europe industries are working at full speed to execute orders for the armed forces. It would be very short-sighted indeed from the point of view of the economic war effort of Germany to lose valuable time and disorganise transport by transferring plants from occupied countries to the Reich. Moreover, from the point of view of the effects of air raids, it would be unwise to concentrate all industries within comparatively limited areas instead of leaving them dispersed all over Europe. The contention that the "New Order" has not yet been established is, however, a double-edged weapon. For, the victims of German or Japanese exploitation may

rightly suspect that under the full application of the "New Order" they would be exploited to an even higher degree than they are now. The real hardship imposed on the subject races by the "New Order" is yet to come, when, after the war, they will be deprived of their industries, and their industrial workmen will have to migrate to the Reich and assume the rôle of unskilled labourers. This situation also exists in Japanese-occupied Asia though to a decidedly less degree, owing to the fact that the Japanese-occupied countries are at a less advanced stage of industrialisation than the German-occupied countries.



## CHAPTER VI

### AGRICULTURE UNDER JAPANESE RULE

THE agricultural aspects of the Japanese "Co-Prosperity" Sphere are of the utmost importance since the predominant majority of the populations of the conquered countries lives on the products of agriculture. Before they were invaded by Japan these countries had every reason to expect a development of their industries in the course of the next few decades. The European Powers and the United States, so far from being opposed to the trend of industrialisation of the countries under their control, actually encouraged it, by providing capital, machinery and skilled management. The native population was making good progress towards developing a class of engineers and managers, and many industrial undertakings were created mainly or entirely with the aid of local capital and under local management. The development of industries in India provides an example of industrialisation under British rule. It does not form part of British colonial policy to force colonies to retain their exclusively agricultural status. As and when the colonies progress towards the dominion status they tend to develop industries of their own. Needless to say, it would take many decades before any of the colonies develop into a predominantly industrial country, if, indeed, they would ever reach that stage. The trend is, however, towards the development of an economy based less one-sidedly on agriculture alone. This is to the interest of the native population since industries can absorb the surplus populations which the land is unable to feed, and they tend to increase the standard of living. At the same time it is not contrary to the interests of the colonising power since experience has proved that the purchasing power of an industrialised country is much higher than that of a purely agricultural country. The fact that German imports of British goods before the war were much higher

than Indian imports per head of the population speaks for itself.

In the "Co-Prosperity" Sphere the process of industrialisation, which had been making progress in each country conquered by Japan, will be arrested if not reversed. The populations of these countries can no longer hope that their standard of living will improve through industrialisation so long as they are under Japanese rule. It is the declared policy of Japan to de-industrialise them, or, at any rate, to prevent them from building up industries in the way they would have been built up but for the Japanese invasion. This means that the relative importance of agriculture in the economies of the conquered peoples is much greater under the "Co-Prosperity" scheme than it was before the war. One might almost go so far as to say that from the point of view of the subject races the "Co-Prosperity" scheme stands or falls according to the result of its policy of improving agricultural conditions.

One of the most effective arguments in the German "New Order" propaganda was the promise that under the "New Order" the agricultural resources of the conquered countries would be exploited much more effectively than they were under the national régimes of the countries concerned. This argument was, of course, entirely unconvincing and ineffective in Northern and Western Europe where agricultural exploitation has always been more highly developed than in Germany itself. On the other hand, in Central, Eastern and South-Eastern Europe the promise of more efficient agricultural exploitation carried some weight owing to the highly inefficient agricultural systems prevailing there. Partly owing to the fact that peasant farming still predominates in that part of the world, partly for lack of adequate financial resources, and partly owing to lack of organising capacity of the Governments, agriculture in Eastern and South-Eastern Europe has been relatively backward, and the proceeds have not done justice to the high fertility of the soil. The agricultural population of Central and South-Eastern Europe suffered much during the years of depression owing to the fact that it was unable to reduce

its cost of production to the level of that of new countries such as Canada, the Argentine, Australia, etc., working on the basis of up-to-date systems of large-scale production. The low level of agricultural prices and their constant fluctuation caused much discontent among the agricultural population of the Danube Basin, and the German "New Order" propaganda took full advantage of this. The Germans endeavoured to secure the support of the peasants by promising them steady and remunerative prices and a permanent market for their products. At the same time, however, German propaganda also promised the adoption of more efficient methods, which could not be achieved otherwise than through the abolition of peasant farming. There was obvious contradiction between the two promises, contradiction which showed itself particularly clearly in the case of Hungary. There the German agents promised the landless peasants to enforce the division of large estates, while the landed proprietors were promised, at the same time, to be protected against the land famine of the landless peasants.

It did not take very long for the agricultural populations of Europe to discover the utter falsity of the German promises. In Denmark, Holland, Norway and Belgium this became obvious from the very outset, since the German invaders ordered immediately the slaughter of a very large part of the livestock, and the replacement of dairy farming by less profitable wheat-growing. It took somewhat longer for the agricultural populations of Central and South-Eastern Europe to discover how little they could depend on the promises made under the "New Order" scheme. Although the prices paid by the Germans were, to begin with, generous, subsequently the inflationary measures forced on the German-controlled countries resulted in such an all-round rise in the cost of production that the German purchase price for agricultural products soon became unremunerative. By 1941 it became difficult for the local authorities of the German-controlled countries to secure the land products they promised to deliver to Germany because producers were able to obtain much better prices

from local consumers. In 1942 Germany brought extreme pressure to bear on all those countries to force them to stabilise their price levels in order that the agricultural producers should not be tempted to sell their products locally instead of selling them to Germany. The result was that farmers restricted their production to their own requirements. The promised reorganisation of agricultural production was deferred until after the war, even though in isolated instances Germany initiated immediate changes when this was in accordance with her immediate interests.

Agriculture under German auspices in Europe was thus far from being a success. This did not deter Japanese propaganda, however, from making promises as extravagant as those made earlier by German propaganda. Yet Japan is in a much less favourable position to fulfil such promises. For one thing, her absorbing capacity of agricultural products is considerably smaller than that of Germany. Together with Korea and Formosa, Japan is more or less self-sufficient regarding food. It is, of course, possible that an improvement in the standard of living of the Japanese population would lead to an increase of the demand for products grown outside Japan. It is equally possible and even probable that, as a result of her industrialisation, Japan's own food production would decline while her food consumption would increase through the import of millions of unskilled workers from the "Co-Prosperity" Sphere. Even so, it ought to be borne in mind that while in German-controlled Europe the agricultural population outnumbers the industrial population to the extent of about three to one, in Japanese-controlled Asia this proportion will be something like twenty to one, after the completion of the conquests envisaged by the promoters of the "Co-Prosperity" Sphere. Even if the entire population of Japan became engaged in industries, which is clearly impossible, their consumption would only absorb a relatively small part of the food produced by the vast agricultural populations of Asia.

Another hitch in the Japanese agricultural scheme for the "Co-Prosperity" Sphere is that Japan is unable to

produce tractors in adequate numbers. This defect can be remedied in the course of time as a result of the development of the engineering industries, but for many years the "Co-Prosperity" Sphere would remain far from self-supporting in tractors and agricultural implements in general.

Nor is Japan in a position to offer the benefits of a highly efficient and modern agricultural producer. Notwithstanding her progress in recent decades, she is still far behind Germany in that respect. Indeed, her methods of agricultural exploitation are regarded in Germany as mediaeval.

Above all, the nature of the existing agricultural production of conquered countries is such as to make its adjustment to the requirements of the "Co-Prosperity" order a very painful process. While Germany is in a position to absorb the entire surplus of South-East Europe there is no chance for Japan ever to absorb the rubber or sugar production of the southern territories she has conquered. The immense value represented by the capital invested in rubber and sugar plantations and the benefit of long experience would have to be thrown overboard in order to be able to establish anything approaching economic unity in the "Co-Prosperity" Sphere. That seems to be a thoroughly bad start for the agricultural reorganisation promised by Japan. Reorganisation it certainly will be, but not for the better from the point of view of the productivity of the agriculture of the conquered countries. Instead of growing products for which their land and climate are eminently suitable, and which they thoroughly understand how to grow, they have to experiment with new lines of production for which their climate may not be suitable.

Up to the time of writing, the changes brought about in the agricultural systems of the conquered countries consisted mainly in the reduction of sugar and rubber production. To be exact, the Japanese authorities did not actually take action to that end. What really happened was that the rubber and cane-sugar plantations destroyed under the "scorched earth" policy, or abandoned as a result of the

invasion, were not restarted. Admittedly the task of re-starting all of them, or even a large percentage of them, would not have been easy. Apart from any destruction of equipment there is an acute shortage of managerial personnel owing to the evacuation or internment of the white planters and their white staffs. Neither the native population nor Japanese settlers are in a position to replace the organisers of rubber and sugar plantations at short notice. It would take years before production in either branch could be raised to its pre-invasion level, even if the Japanese authorities wished to do so. Thus, in declaring it to be their policy to reduce the output of sugar and rubber, to some extent they made virtue of necessity.

Notwithstanding the sharp fall in the output of rubber and sugar it is still in excess of requirements. For this reason efforts are being made to find new uses for both commodities. Processes are claimed to have been invented by which rubber can be converted into oil. The farcical situation has arisen that, while in Europe and the United States oil is being converted into rubber, in Asia rubber is being converted into oil. According to a recent report a process has also been invented for the extraction of aviation spirit out of sugar-cane. In fact the Japanese Press claims that, thanks to this invention, Japan will be able to make full use of the sugar-cane production of the "Co-Prosperity" Sphere. The efforts made to produce aviation spirit and other types of oil out of sugar-cane and rubber seem to be in contradiction with the extravagant claims put forward by Japanese propaganda about the progress made towards the reconstruction of the destroyed oilfields and refineries. If the progress is really so satisfactory, then it may well be asked why it is necessary to adopt expensive processes of production of synthetic oil. The explanation may lie to some extent in the shortage of tankers. This means, however, that after the war, should Japan remain in control of the territories conquered, she would have no use for these synthetic processes, since, in the course of time, she would be able to reconstruct the oilfields and refineries to a sufficient extent to cover her require-

ments, and she would also be able to build an adequate fleet of tankers. The synthetic processes do not, therefore, provide a solution of the problem of the surplus of sugar and rubber in the "Co-Prosperity" Sphere even though they may be helpful in the immediate future for the Japanese war economy.

It is in respect of the alleged progress of cotton-growing in the "Co-Prosperity" Sphere that Japanese propaganda has been putting out some of its most extravagant claims. To believe Japanese reports, cotton-growing in Celebes and other parts of the Dutch East Indies, and also in the Philippines, is already in full swing, and such is the fertility of the soil that once the plantation is established it hardly requires any effort. The truth of the matter is that the climate of the conquered countries of the South-West Pacific is far from suitable for cotton-growing. It is not without reason that cotton-growing in that area is negligible. As is well known, cotton-growing requires not a tropical climate but a sub-tropical climate. Moreover, the season of the cotton crop coincides with the typhoon season, and violent storms are liable to destroy the crops. The only part of the "Co-Prosperity" Sphere which is suitable for cotton-growing is North China, where efforts are in fact made to increase the acreage under cultivation.

There is not the slightest chance that cotton-growing will provide employment for the many millions of agricultural workers who have become unemployed as the result of the decline of rubber and sugar production. According to a Japanese source, in Sumatra alone there are hundreds of thousands of unemployed agricultural workmen. It is bound to take some time before alternative permanent occupation can be found for these unemployed. Meanwhile in Burma and elsewhere many of them have been driven by famine into forming themselves into marauding gangs, imperilling life and property and interfering with production in vast areas which cannot adequately be garrisoned by Japanese troops.

To mitigate the evil consequences of unemployment and, at the same time, to increase the self-sufficiency of

various countries within the "Co-Prosperity" Sphere, the Japanese authorities are encouraging the native populations formerly engaged in rubber or sugar growing to grow rice or vegetables for their own requirements. As far as agriculture is concerned the trend of evolution is not towards increased division of labour but in the opposite direction, and the advantages of large-scale cultivation are abandoned. Their replacement by primitive peasant farming is decidedly a retrograde step.

But even if agriculture should prosper under the "New Order", the Japanese conquerors are far from keen on increasing the share of the native populations in the result of agricultural production. In this respect, too, Japan is following the example of Germany. Before embarking on the conquest of a country the Germans usually promise its rural population the division of landed estates, but once the conquest is completed and consolidated these promises are forgotten. In Czecho-Slovakia the land reform carried out under the Republican Government was actually reversed by the German conquerors, and land distributed among the Czech peasantry after the last war was restored to its former owners, the German landed proprietors. In Poland the only transfer of land under German occupation was the allotment to German settlers of land confiscated from Polish owners.

The Japanese conquerors adopted a very similar attitude to that of the German conquerors. They promised to liberate the native populations from the "yoke" of the white races. Had these promises been genuine it would have been the duty of the Japanese authorities to distribute among the native populations the land seized from the European or American owners. In reality all that was done was to declare that any property which on December 8, 1941, belonged to enemy subjects was confiscated. The decree issued to that effect in Java applied also to native property, but as a concession it was generously agreed that, for the present, the decree would not be put into operation as far as the native property is concerned.

If anyone should be inclined to suppose that the con-



fiscation of property is but a temporary measure pending the distribution of land among the native population, it is sufficient to recall that in Formosa and Korea the Japanese usurpers have been there for decades without carrying out the land reforms promised in these countries. They have simply laid hands on everything worth having, and the native populations have been reduced to the status of a landless proletariat. There is no reason to suppose that Japan intends to be more generous with the Filipinos, Javanese, Malays or Burmese than she has proved to be with the peoples of Formosa and Korea.

It is possible that the native owners will not be expropriated outright, but will be deprived of their properties with the aid of methods successfully applied by Germany in conquered countries in Europe. Land will be bought up and paid for in worthless currency, and the economic conditions created in the conquered countries will be such as to compel land-owners to sell their land. The buyers will have to be either Japanese or Asiatics approved by the Japanese authorities. To make this sure it has been decreed in all conquered countries that no property can exchange hands without a licence from the Japanese authorities. With the aid of this measure even in the absence of crude expropriation the land owned by the Asiatic populations will gradually share the fate of the properties of white planters which were seized by the invaders. Possibly by the time the transfer is more or less complete the Japanese will have developed efficient agricultural methods, in which case, however, it will be they and not the native agricultural populations who will benefit by such improvements. The conquered peoples will be reduced to the rôle of landless agricultural proletariat, ruthlessly exploited for the benefit of the ruling race.

The conclusion that agriculture in Eastern Asia will suffer under Japanese rule has not been reached solely on the basis of conjecture. The experience of the countries which for some time have been under Japanese rule gives some indication of the fate that awaits agriculture in the South-West Pacific. In Manchuria the chief food of the

population is rice and millet. According to Japanese official statistics the production of rice, which was increasing up to 1931, has been declining considerably ever since Japanese occupation. The same is true concerning millet and other foodstuffs consumed by the native populations. This is due in part to the development of industries in Manchuria, though this factor in itself could not account for the entire decline. An equally important factor was the price policy pursued by the Japanese authorities in Manchuria. In order to keep down the cost of industrial production, they fixed the prices of agricultural products at a very low level. The result was that the producers reduced their acreage. It was only comparatively recently that Japan realised her mistake and sought to correct it by raising agricultural prices. It remains to be seen to what extent this change of policy will lead to an increase of production.

## CHAPTER VII

### IS THE "CO-PROSPERITY" SPHERE SELF-SUFFICIENT?

THE Japanese bid for the domination of Eastern Asia is based largely on the economic argument that Japan's economy and that of the conquered countries complement each other and form together a perfect unit. Beyond doubt, the conquered territories will be able to supply much of the raw materials which Japanese industries require. In the present chapter we propose to examine the extent to which the raw material requirements of the "Co-Prosperity" Sphere are covered by its internal resources. For the purpose of our present inquiry we assume that Japan will not gain even temporary possession of other territories beyond those which she secured during the first six months of the war in the Pacific.

The coal resources of Japan proper are by no means negligible, even though the quality of the coal is poor. The output amounted in 1936 to 41,803,000 metric tons. The total coal reserves of Japan proper are estimated at 16,690,000,000 tons, of which 5,960,000,000 tons are supposed to be proved reserves according to Japanese authorities. The present production is estimated at 54,000,000 metric tons, while consumption, including the requirements of the synthetic oil industry, is put at 70,000,000 tons. Japan's deficiency amounts, therefore, to some 16,000,000 tons, which has to be covered by means of imports. Of this quantity some 6,000,000 tons represent coking coal, as Japanese coal is unsuitable for coking purposes.

Japan's requirements of coking coal and other types of coal can be satisfied from the resources of the "Co-Prosperity" Sphere, in particular from Manchuria, North China and Indo-China. Some coal is produced also in the old Japanese colonies. Their total export to Japan is believed to have reached 6,000,000 tons per annum. The coal reserves of North China are vast. Exports from North China

to Japan are supposed to have reached 5,500,000 tons in 1941. Owing to transport difficulties Japan has been unable to draw extensively on the richest coal deposits in the interior of China, especially in the Tetung area and in the Shansi Province. Most of the coal exported to Japan is from Shantung and Hopei Provinces. While the actual extent to which Japan benefits by the coal reserves of North China is moderate, the possibilities are admittedly immense.

In respect of coal, as in so many other respects, Manchuria has proved a disappointment to Japan owing to shortage of equipment and labour. In any case, the increase in the industrialisation of Manchuria resulted in a decline in coal exports from 2,236,000 tons in 1936 to 762,000 tons in 1939. According to Japanese sources, production has been increased to over 20,000,000 tons in 1941, but it is unlikely that Japan obtained much more than 1,000,000 metric tons. Since she was unable to increase her coal imports from Manchuria during the period when she concentrated most of her colonising efforts on that country, it seems unlikely that she is now able even to maintain the output and export, considering that her colonising efforts are now dispersed over a dozen countries.

Indo-China is believed to be exporting coal to Japan at the rate of about 800,000 tons per annum. Her total production is under 3,000,000 tons, and no spectacular increase is anticipated.

While the "Co-Prosperity" Sphere has undoubtedly immense coal resources, the extent to which those resources are available at present to Japan is barely adequate, especially if we allow for an expansion of the Japanese war industries during the course of the prolonged hostilities. In time of peace, however, Japan would be well in a position to develop the coal resources under her control, and even to reduce the production of inferior coal on her own territory for the sake of employing more profitably the labour thus released. To do so would necessitate, however, a very considerable increase of shipping facilities, which at present are barely adequate even for the import of the relatively

moderate quantities of coal now being drawn from the conquered countries.

The oil resources of Japan proper are negligible. Present production is estimated at some 400,000 metric tons, exclusive of the output of the Japanese concession in Sakhalin, amounting to about 250,000 tons. On the other hand, production of synthetic oil has been increased very considerably during recent years. Shortly before the war, Japan placed in Germany an order for synthetic oil plant to the value of from £20,000,000 to £25,000,000. A large part of the equipment is known to have been delivered during the early part of the war, but deliveries necessarily stopped with the outbreak of the Russo-German War. No reliable estimates are available about the output of synthetic oil, but the chances are that it is still rather under 1,000,000 tons a year. To this the output of synthetic oil plants in Manchuria, estimated at 250,000 tons, should be added.

Japan's peace-time requirements were estimated at 4,000,000 tons a year, and even though her civilian requirements may have been cut, her military requirements and the needs of her arms industries must have more than offset the economies enforced in civilian consumption. Operations in the battle zone in the Pacific necessitate frequent movements of substantial Japanese fleets, and movements of troops and supplies also require large quantities of fuel oil. It is, therefore, reasonable to assume that the oil deficit of Japan proper must be at least 5,000,000 tons a year, if not considerably more. This very rough estimate does not allow for the output of the oilfields seized since December 1941. Notwithstanding the thorough application of the "scorched earth" policy, Japan must have succeeded by now in restoring some part of the formerly very considerable output of the oilfields in the Dutch East Indies, British Borneo and Burma. Some of the refining facilities, pipelines and other equipment have also probably been restored. The extent to which Japan can draw on the oil reserves of the newly conquered countries is, however, an entirely unknown factor, and it would be futile to attempt to give

an estimate. The chances are that, notwithstanding the progress in that direction, Japan has to draw on her reserves. Unfortunately, owing to the short-sighted policy of the Governments and oil companies concerned, Japan was able to build up before the war in the Pacific substantial oil reserves. It would be, therefore, wishful thinking to expect that Japan's military operations will be paralysed through exhaustion of the oil supplies. It seems probable that before that stage would be reached the output of newly conquered oilfields will be increased sufficiently to cover the deficit. Meanwhile the supplies are supplemented through the production of oil from rubber and sugar-cane.

Should Japan remain in possession of her conquests after the war, the oil reserves of the "Co-Prosperity" Sphere would be more than sufficient to cover all requirements. Japan would then be in a position to discontinue the costly process of synthetic oil production and shale oil production from inferior raw materials.

One of the weakest spots of Japan's war potential at the time of the outbreak of the war in the Pacific was the inadequacy of her iron ore resources. In Japan proper there are only very limited quantities of low-grade iron ore. Her production was only 750,000 tons in 1936. The iron ore resources of Korea were more substantial, and in 1941 the total production of Japan and Korea was claimed to be 4,000,000 tons. Against this Japan's steel production is believed to be between 7,000,000 and 8,000,000 tons a year. Considering that the metal content of the iron ore produced in Japan and Korea is not likely to be much more than 40 per cent on the average, the import requirements of the steel industry are very substantial, even if we allow for 2,000,000 tons as the quantity of inland scrap used up.

Part of the deficit in iron ore is covered from occupied China. The amount of iron ore imported from China by Japan is estimated at about 1,500,000 tons. Of this less than one-sixth represents high-grade ore. On the other hand, there are large high-grade ore deposits in Manchuria. These deposits have not yet been developed, and Japan obtains low-grade ore only from Manchuria. That country

now produces pig-iron on a substantial scale. It is estimated that Manchuria exports 1,500,000 tons of iron ore and 500,000 tons of pig-iron to Japan.

The Philippines possess very substantial high-grade iron ore deposits. The deposits at Mindanao are estimated at something like half a milliard metric tons, but their exploitation only started in 1940 and has not reached a very advanced stage. During the last pre-war year the Philippines' exports were just under 1,000,000 tons. There are substantial iron ore deposits in Malaya, and exports to Japan in 1939 were nearly 2,000,000 tons with a metal content of 65 per cent.

Before the war the Japanese steel industry depended to a very large extent on scrap imported from the U.S.A. Owing to the possession of extensive iron ore resources in the conquered countries, Japan may now be considered to be more than self-sufficient in respect of iron ore. She will have no difficulty in increasing the output of the existing mines even though in some instances the result of the "scorched earth" policy may cause some delay. The supply of iron ore for the Japanese steel industry is thus largely a problem of shipping space. Moreover, the steel-works have to make considerable adjustments to switch over from the use of scrap iron to the use of pig-iron.

Japan will be well in a position to cover her deficit in manganese out of the resources of the Philippines, Malaya, the Netherlands East Indies and French Indo-China. Her own production was 33,000 tons of manganese in terms of metal content, which was less than one-third of her requirements. The main source of her manganese imports was British India, but an increase of the resources within the conquered countries can cover the deficiency that has arisen through the cessation of this supply.

Japanese production of copper is estimated at about 100,000 tons, which covers approximately one-half of her requirements. Korea, Formosa and Manchuria contributed before the war to a moderate extent towards covering Japan's deficit. The very substantial copper ore deposits in Manchuria are unexploited owing to transport difficulties.

Communications would have to be developed before Japan could hope to increase her import of copper from that source. On the other hand, the copper resources of the Philippines offer better immediate possibilities even though the present annual output is only 9000 tons.

It is evident that copper is one of the weak spots of the "Co-Prosperity" Sphere. This does not necessarily mean, however, that Japan is likely to experience difficulties in the near future. It is estimated that during 1937-1940 Japan was able to accumulate a reserve of about 150,000 tons. Together with the increase of production at home, in Manchuria and the Philippines, this reserve should be able to cover her requirements for years.

Japan's consumption of lead is about 120,000 tons, while her own production is only about one-sixth of that quantity. Production in Korea is estimated at 10,000 tons, and in Manchuria at 20,000 tons. The latter quantity is capable of being increased considerably. This, together with the lead production of Burma, amounting to 90,000 tons, more or less covers Japan's peace-time deficit. In addition, there are also lead mines in French Indo-China and the Philippines.

Japan's zinc requirements are about 100,000 tons a year, and of this about 20,000 tons are produced within Japan proper. Korea and Manchuria produce some 14,000 tons between them. French Indo-China too can supply a fair quantity, while there are possibilities of gaining some from China. The output of Burma is sufficient to cover considerably more than one-half of Japan's pre-war requirements. There are, presumably, sufficiently large stocks to cover the deficiency of the "Co-Prosperity" Sphere for years to come.

There are ample raw material resources for Japan's comparatively young aluminium industry. Some substantial deposits of alumina shale were discovered in 1940 in Japan proper. There are, moreover, various raw material resources in Manchuria, Korea, the Netherlands East Indies and Malaya. Both the Netherlands East Indies and Malaya are rich in bauxite, containing between 50 and 60 per cent



of alumina oxide. In spite of this Japan appears to prefer to use home-produced alumina shale with only between 20 and 35 per cent of alumina oxide content. This is probably due to the fact that the extra labour required for the working of low-grade raw materials is easier to procure than the extra shipping space required for the import of bauxite from distant countries.

The "Co-Prosperity" Sphere is very rich in magnesite. In Manchuria alone over 400,000 tons were produced in 1938, which is ample to cover Japan's requirements in spite of the growing use of metallic magnesium by the aircraft industry.

One of the strategic metals which the "Co-Prosperity" Sphere is able to produce considerably in excess of her requirements is tin. Malaya alone is able to cover more than five times Japan's requirements. There are, moreover, tin resources in Japan, the Dutch East Indies, Siam, Burma and French Indo-China. Japan's problem is to provide adequate refining capacity. Her own refining capacity is estimated at only 5000 tons a year. The "scorched earth" policy in Malaya and elsewhere put some important tin-smelting plants out of action for some time to come.

The "Co-Prosperity" Sphere is more or less deficient in some essential alloy metals, such as antimony, nickel, molybdenum and cobalt. Japan's own production of antimony is negligible, while Korea, Indo-China and Burma can only cover a small part of her requirements. The production of China is substantial, but it is believed that only a small part of it is within the reach of Japan.

Japan's deficiency in nickel was covered by the import of over 11,300 tons during the last pre-war year. Most of this came from outside the "Co-Prosperity" Sphere. Burma and the Netherlands East Indies are small producers, and Japan and Korea possess unexplored deposits of very low-grade nickel ore. Even so, the uncovered deficit in this important metal must be considerable.

Molybdenum production in Japanese-controlled countries is negligible, but since the "Co-Prosperity" Sphere

has ample resources of tungsten, this deficiency can be met by the substitution of the latter for the former. Burma is a producer of cobalt, but owing to the destruction of her mines Japan will have to rely on her stocks to cover the requirements of her synthetic oil production.

The production of chrome is considerably more than sufficient to cover requirements. Japan's own output before the war was sufficient to meet her needs, while the production of the Philippines is very substantial and is increasing rapidly.

On the other hand, the "Co-Prosperity" Sphere is deficient in mercury. Japan's own production is very small, but, in all probability, she has set aside substantial supplies of imported mercury.

Owing to the low standard of living of the Japanese people, Japan, with her earlier conquest of Formosa and Korea, is self-sufficient in food. In normal years Formosa and Korea are able to cover Japan's deficiency in rice, and if crops are unsatisfactory the resources of Indo-China, Siam and Burma can be drawn upon. The fact that, notwithstanding shortage of shipping space, Japan has been importing large quantities of rice from these distant conquered countries seems to indicate that in Japan itself man-power is diverted from the rice-fields to war industries or to the Services.

In respect of soya beans, Manchuria is able to cover all requirements. Under Japanese rule her production fell very considerably owing to the attempt of the Japanese authorities to secure the crops at an unduly low price. Notwithstanding this, enough is produced to meet Japan's needs.

The "Co-Prosperity" Sphere has a surfeit of cane-sugar production. As we saw in earlier chapters, Japan intends to reduce sugar production in the Philippines and in Java. At the same time she is increasing her sugar consumption.

There are ample supplies of vegetable oils at Japan's disposal in China, Manchuria, the Netherlands East Indies and elsewhere.

Lack of adequate supplies of cotton and wool constitutes

one of the most important deficiencies of the "Co-Prosperity" Sphere. Cotton-growing in countries under Japanese control has been so far negligible. Immediately after the conquests of the countries of the South-Western Pacific Japanese experts elaborated ambitious schemes for the development of cotton-growing in the Dutch East Indies and the Philippines. Japanese propaganda has for months filled the ether with claims of the progress of the conversion of cane-sugar plantations into cotton plantations. There is no way of checking the accuracy of these claims, still less of forming an opinion about the optimistic estimates of the anticipated crop. One thing is certain. Cotton-growing requires a sub-tropical climate while the Dutch East Indies and the Philippines are tropical countries. Moreover, as we pointed out in the previous chapter, the ripening of the cotton crop coincides with the typhoon season. From the point of view of the climate North China is about the only part of the "Co-Prosperity" Sphere suitable for cotton-growing on a large scale.

One of the reasons why Japan is keen on securing British India is in order to secure her cotton resources. It seems reasonable to assume that should an independent India under Gandhi adopt the status of a neutral country, in accordance with Gandhi's declared intention, it would willingly satisfy Japan's requirements of cotton, and would thus fill this important gap in Japan's economic war potential.

Japan's position regarding wool is, if anything, even worse than her cotton position. The "Co-Prosperity" Sphere can only cover one-tenth of the normal wool requirements, and even that is of an inferior quality. While the fighting is in tropical or sub-tropical countries Japan's deficiency in wool is of no great immediate consequence. Should, however, Japan become embroiled in a war with Soviet Russia, the need for adequate warm clothing would soon exhaust her reserves of wool. The desire to secure wool supplies accounts partly for the keenness of Japan to conquer Australia and New Zealand.

Another textile raw material in which the "Co-Pro-

sperity" Sphere is short is jute. French Indo-China produces some, and so do other parts of the "Co-Prosperity" Sphere, but the total is far below requirements. No wonder Japan casts a covetous eye towards Indian jute supplies. Efforts are being made to increase jute production in Java. Meanwhile jute is substituted by hemp for various purposes. Satisfactory as this substitute may be, it is a matter of some urgency to make good the deficiency in jute bags.

Even though Japan itself is deficient in vegetable fibres, her requirements of such fibres, with the exception of jute, can easily be covered out of the immense resources of the Netherlands East Indies and the Philippines in Manila hemp, copra and kapok. Indeed the output of the "Co-Prosperity" Sphere in these materials is in excess of her requirements, and Japan intends to enforce a reduction in their production.

Japan has also a huge excess of silk production. To deal with the situation production has been reduced by approximately one-third, and domestic consumption is encouraged through lowering prices. Japanese silk is also used extensively to replace cotton and wool. Even so, Japanese writers admit that the days of prosperity for the Japanese silk trade are over.

About 90 per cent of the world's total production of rubber is now under Japanese control. Her own requirements can almost be satisfied out of the production of French Indo-China alone. According to Japanese propaganda, arrangements are made for the application of processes to produce oil and lubricating oil out of rubber. It is Japan's declared intention to reduce considerably the production within the "Co-Prosperity" Sphere.

From the above details it is evident that, while the "Co-Prosperity" Sphere is very rich in a number of strategic raw materials, and is able to cover Japan's deficiencies in many respects, it is very far from being self-sufficient in all raw materials. There are noteworthy deficiencies in various metals, the most important of which are copper and nickel. The supply of textile raw materials too is inadequate. This latter deficiency is particularly

important. Clothing constitutes one of the most important articles which agricultural countries have to import. For lack of raw materials Japan will be unable to satisfy the needs of the "Co-Prosperity" Sphere in textiles even if she had the industrial capacity required for that purpose. This being so, the agricultural population will find that, even though payment is made for their products by Japan in local currencies, it will be impossible to buy much-needed clothing. This will tend to discourage to a large extent the desire of farmers to produce in excess of their own requirements.

If, as it appears probable at the time of writing, the war should continue for years, Japan will begin to feel the effects of the deficiencies in copper, nickel and other metals. Needless to say, in time of peace these deficiencies and those of textile materials would not matter greatly, for the "Co-Prosperity" Sphere would be able to produce large export surpluses in tin, rubber, silk, sugar, coffee, tobacco, etc., to pay for the imports of cotton, wool, nickel, copper, etc. Since, however, it is the policy of Japan to reduce the production of raw materials not required during the war, it would be no easy problem after the war to recover pre-war exports.

## CHAPTER VIII

### FLAWS IN JAPAN'S INDUSTRIAL RESOURCES

SINCE the outbreak of the war in the Pacific various Japanese official and unofficial spokesmen declared Japan's intention to assume the rôle of the workshop of the "Co-Prosperity" Sphere. This was not the original plan as far as it can be judged by the Japanese attitude towards industries in Manchuria and in occupied China. In Manchuria great efforts have been made to develop local industries, based on iron ore, coal and other natural resources. So far from attempting to deprive the country of its industries, Japan, at the cost of considerable capital expenditure, expanded them and established new branches of industries. In China the policy pursued was not one of de-industrialisation but one of placing the existing and by no means inconsiderable industries under Japanese financial control. Most Chinese industrial undertakings of any importance were forced to issue shares giving the controlling interest to the leading Japanese industrial combines in the same branch. Nor has there been any evidence so far of any endeavour to de-industrialise the newly conquered territories. On the contrary, the damage to industrial plants caused by the application of the "scorched earth" policy is being repaired as fast as possible.

There is, in fact, a school of thought in Japan that is opposed to her extreme industrialisation, and would prefer her to revert largely to agriculture. Although this view is allowed to be expressed it is certainly not shared by the Tojo Government as a whole, which is in favour of converting Japan into the workshop of the "Co-Prosperity" Sphere without appearing to be dogmatic about it.

It is conceivable that the announcement of Japan's change of policy which now aims at assuming virtually the monopoly of manufacturing industries in the "Co-Prosperity" Sphere was due to a tendency towards a slovenly

imitation of the German "New Order" scheme in Europe. On the other hand, it is at least equally possible that Japan, like Germany, has to subordinate for the present the requirements of her "Co-Prosperity" scheme to the more immediate requirements of her war economy. Japan needs at present all the industrial resources of the territories under her control. She can ill afford the shipping space that would be required for the removal of the plants from distant countries to Japan, and, more especially, the shipping space required for supplying the transferred industries with raw materials from the countries where they were originally established. While some spokesmen stress the intention of making Japan the workshop of the "Co-Prosperity" Sphere, others admit the necessity of making each one of the conquered countries as self-sufficient as possible. To the latter end local industries have to be maintained. They have to be reconstructed if destroyed during the course of the hostilities. What is more, according to Japanese claims, in some instances the existing industries are being expanded and new industries are being established.

Considering that this was exactly the policy which was adopted in Manchuria and in occupied China during a period when no consideration of war economy prevailed in favour of decentralisation of industries, it may appear possible that in declaring that Japan is to become the workshop of the "Co-Prosperity" Sphere, Japanese spokesmen were merely aping Germany without expressing the Government's true intentions. This would not be the only respect in which the Japanese showed themselves anxious to imitate their German masters. Absurd as it may appear, it seems the Japanese propaganda claim is a mere effort to be more German than Germany. In the methods applied in conquered countries the situation is not nearly so simple. The declared intention of the ruling race, both in German-controlled Europe and in Japanese-controlled Asia, to become the workshop of its respective "Co-Prosperity" Sphere must not be taken too literally. Neither Germany nor Japan can possibly intend to remove all industries from the conquered countries and to reduce them

to conditions prevailing in "Erewhon" after its demechanisation.

It would be the height of absurdity if, instead of producing pig-iron in Manchuria, Japan would produce it exclusively at home with the aid of iron ore and coal imported from Manchuria. It would be equally absurd if all the sugar refineries were transferred from Java to Japan, and if millions of tons of sugar-cane were to be shipped henceforth all that way in order to be refined thousands of miles from their plantations. The principle that Japan should be the workshop of the "Co-Prosperity" Sphere is a principle admitting of many exceptions. Japan is not likely to discourage the continued existence or further development of those industries which are closely connected with local raw material production. What she would never tolerate would be the development of arms industries, or of industries competing with her own exporting industries. The creation of various branches of textile, iron, steel, etc., industries which we have witnessed in India during the last few decades would be something inconceivable in any country under Japanese rule, unless some specific Japanese interest is involved. The young industries in India serve Indian interests without regard to British interests, and, to a large extent, even against immediate British interests. If an industrial undertaking is to be tolerated in the "Co-Prosperity" Sphere it will have to serve first and last Japan's interests. It is against British interests that textile industries competing with Lancashire should develop in India. Nevertheless, they were allowed to develop. Any industries which would not suit Japanese interests would be stamped out in the "Co-Prosperity" Sphere, and the principle that Japan should enjoy manufacturing monopoly would be fully applied in their respect. On the other hand, the production of pig-iron, and even steel, in Manchuria, the smelting of tin in Malaya, and the refining of sugar in Java and the Philippines, are in accordance with Japanese interests, and, therefore, they will be allowed to continue.

Hitherto, the manufacturing requirements of the Japan-



ese-controlled territories have been supplied to a very large extent from Europe and the United States. Will the Japanese industries be able to take the place of European and American industries? To answer this question it is necessary to take a glimpse at the development and present position of Japanese industries.

During recent years Japan has undergone a spectacular industrialisation. Her industrial revolution between the two wars is second only to that of Soviet Russia. The degree of ignorance prevailing in the outside world in this respect is really amazing. Most people look upon Japan as a predominantly agricultural country with a few inferior industries. The fact that the Japanese goods one comes across abroad are usually of an inferior quality led to the conception that Japanese industries are at a very primitive stage of development. This largely explains the fact that at the outbreak of the war in the Pacific most people underestimated Japan's strength in waging mechanised warfare. As a matter of fact, the reason why most Japanese manufactured goods that are exported are shoddy and of an inferior quality lies in the desire of Japanese exporting industries to produce at the cheapest possible cost. Many of them would have been able to improve the quality of their products during recent years. But the 'thirties were the period of the "survival of the cheapest". Owing to the prolonged economic depression, the predominant majority of consumers preferred to buy whatever appeared to be the cheapest in the market irrespective of quality and durability.

The superficial observer inferred from the poor quality of Japanese toys or textiles that Japanese war materials must be also second-rate and third-rate in quality, and that Japanese industries would be entirely incapable of sustaining a prolonged war effort. Wishful thinkers succeeded in convincing themselves and others that Japan has no machine tool industry, and that, since the development of such a highly specialised industry takes years, the arms industries would break down as soon as the existing machine tools imported from the United States have worn out.

While this may be true to some extent about very complicated machine tools and precision instruments, the ordinary machine tools can now easily be manufactured in large quantities in Japan. Very few people are aware of the amazing progress made by the machine tool industry during the last ten or twelve years. No statistics are available to indicate the development of this industry as distinct from engineering industries in general, but the fact that the number of employees in the machinery and machine tool industries increased from 158,000 to 692,000 between 1931 and 1937 speaks for itself. In the employment index published by the Bank of Japan, the item in which machine tools and instruments are lumped together shows an increase from 210 to 374 during the two years that preceded the outbreak of the war (the basic year being 1926 equal to 100). Another indication of the progress of the machine tool industry is that, while in 1932 the value of machine tool output represented less than 10 per cent of a total industrial output, six years later it approached 20 per cent. Considering that during that period the total value of industrial output increased very substantially, it is evident that the progress of the machine tool industry must have been substantial. The combined value of production of machinery and machine tools during the three years ending 1939 increased by nearly 150 per cent.

Already in 1936 Japan claimed to be able to produce nearly 80 per cent of her requirements of machine tools. The remaining 20 per cent, imported mainly from the United States, represented mostly precision instruments and other highly complicated machine tools. Since 1936, the dependence of Japan on imported machine tools must have become further reduced, especially as in 1938 the Machine Tool Industry Law was adopted to encourage its development through fiscal exemption and subsidies.

This does not necessarily mean that inadequate machine tool production will not constitute a bottle-neck in certain branches of industries. Generally speaking, however, Japan is in a position not only to maintain her industries at the high level reached at the time of the outbreak of the war

in the Pacific, but also to develop them further, provided that she is able to produce the quantity of steel required.

Japan's production of steel at the time of the outbreak of the war in the Pacific was at the rate of about 7,000,000 tons per annum, and the capacity of Japanese-controlled territories is another 1,000,000 tons. For a highly industrialised country such as Japan now is 8,000,000 tons of steel is evidently insufficient. It is only about 10 per cent of the output of the United States. Considering, however, that in 1936 the total output was 5,250,000 tons, the rate of progress is by no means negligible. According to a Four-Year Plan, to begin in 1939, Japan and Manchuria were supposed to increase their steel production to 11,000,000 tons in 1942. Fortunately, from the point of view of the United Nations, the development of the Japanese steel industry is at present gravely handicapped in more than one direction. First of all, the former dependence of the Japanese steel industry on supplies of scrap from the United States has made it necessary to carry out a far-reaching reorganisation. In order to be able to produce steel from iron ore, many steel-works have to be changed over from the open hearth process to the Bessemer process. Possibly Japan may have built up large quantities of scrap, in which case the present process may be carried on for a long time in some of the existing works, while others are being converted to the Bessemer system. Even so, during the transition period the output is bound to suffer.

Even after the completion of the change-over Japanese steel production will be handicapped by the lack of high-grade ores within easy distance from Japan. The choice lies between two evils: Japan will either waste her manpower by working uneconomic low-grade ores; or she will waste shipping space by importing high-grade ores from the Philippines and Malaya. Since manpower is even now more plentiful than shipping space, the former solution is more likely to be resorted to, pending an improvement of the shipping position.

It is not only high-grade iron ore which has to be imported in order to be able to increase steel production on

an impressive scale, but also coking coal of good quality. This difficulty can be overcome, however, by concentrating on the increase of steel production in Manchuria and China where good coal is available.

The production of steel requires some highly specialised machinery which Japan used to import from the United States and from Germany. It may take some time before she will be able to produce such machinery in sufficient quantities. Finally, arms industries have made a heavy call on skilled labour in Japan, and for this reason alone the reorganisation of the steel industry is likely to proceed at a comparatively slow pace.

Outside Japan iron and steel industries exist in Manchuria, where 1,000,000 tons of pig-iron and 500,000 tons of steel were produced in 1939. Some steel is also produced in Korea and in occupied China.

It seems probable that during the next few years, at any rate, inadequate output of steel will provide a bottleneck for the development of Japanese manufacturing industries in general. Military requirements, in the narrowest sense of the term, have the first call on the country's steel resources, and to satisfy these requirements without depriving industries in general of the steel they need will call for a supreme effort. To meet the situation rigid economies in the use of iron and steel are enforced in every direction. Timber is now used extensively for shipbuilding instead of steel. Civilian consumption has already been reduced to a minimum, even before the outbreak of the war in the Pacific. In these circumstances it goes without saying that there will be no steel available for manufacturing goods needed by the subject races in the "Co-Prosperity" Sphere. It is, indeed, doubtful whether there will be enough steel for shipbuilding purposes. This question will be examined in greater detail in the chapter dealing with the transport problems of the "Co-Prosperity" Sphere.

Just as Japanese industrial development in general is apt to be handicapped by the lack of adequate supplies of steel, the development of textile industries is handicapped

by lack of cotton and wool. We saw in the preceding chapter that inadequate supplies of textile raw materials constitute one of the weak spots of the "Co-Prosperity" Sphere. Only about 10 per cent of the raw cotton requirements of Japan can be covered out of the present resources of Japanese-occupied countries. Notwithstanding the burning need for textiles, a large proportion of the manufacturing capacity of Japanese textile works has been idle since the breaking-off of commercial relations with the United Nations. The same is true also concerning wool. In the circumstances, it was somewhat surprising to read the promise made by Japanese spokesmen on the occasion of the conclusion of the trade agreement with Indo-China in August 1942, that Japan would provide Indo-China with textiles. For the duration this promise will certainly not be fulfilled to any noteworthy extent. The extensive capacity of silk and rayon industries may cover, to some degree, the deficiency due to lack of cotton and wool. Nevertheless, it is true to say that during the war, at any rate, inadequate textile production will be one of the outstanding weaknesses of the Japanese economic war effort.

The requirements of the "Co-Prosperity" Sphere in cotton cloth are very considerable. Raw cotton needed for meeting these requirements is many times the quantity Japan imported from the "Co-Prosperity" Sphere before the war. In 1936 Japan imported 878,500 tons of raw cotton, of which only about 7 per cent came from the "Co-Prosperity" Sphere. It is true, on the other hand, that nearly two-thirds of the finished products were exported, mostly outside the present "Co-Prosperity" Sphere. Even so, the addition of vast territories with considerable requirements of cotton goods has presented Japan with a problem which, during the war at any rate, is incapable of solution.

The motor industry of Japan was practically non-existent until the 'thirties. In 1929 the number of motor cars manufactured in the country was under 500, while nearly 30,000 were imported or assembled in Japan from parts imported. Seven years later the number of imported

motor vehicles was slightly higher, but, at the same time, the number of those produced in Japan was approaching the 10,000 mark. In 1938 the Government announced its Four-Year Plan, aiming at self-sufficiency in motor vehicles. The target was an increase by 500 per cent by 1943. It seems utterly unlikely that this target has even been approached, though in all probability, the increase achieved has been considerable. One of the reasons why the development of the automobile industry was not more extensive was that Japan concentrated her capacity on the aircraft industry. The most recent figures available are those for 1936, when Japan produced over 3000 aeroplanes and nearly 7000 aero engines. Three months before the outbreak of the war in the Pacific it was officially declared by the Japanese War Ministry that the output was ten times as high as four years ago. There is, of course, no means of checking the accuracy of this statement. Judging by the decline of Japan's air activity towards the close of 1942 the claim appears to be excessive. Indeed there are indications that while the quality of Japanese-produced war-planes leaves little to be desired the volume of output is far behind requirements. Beyond doubt, the aircraft industry, together with the shipbuilding industry, constitutes a weak spot in Japan's economic equipment.

It is evident that the Japanese automobile industry is barely sufficient to cover Japan's own requirements, and there is certainly no surplus to spare for the "Co-Prosperity" Sphere. All the motor vehicles produced in Japan are needed for some purpose in accordance with her interests. There is, of course, the possibility of converting a large part of the aircraft industry after the war for the production of motor cars, lorries and buses.

Japan's chemical industry developed considerably during the quarter of a century that preceded this war. From the point of view of the "Co-Prosperity" Sphere the production of fertilisers is of special interest. Owing to Japan's deficiency in potash, phosphorus and nitrogen, her position in this respect is not very satisfactory even though her production of ammonium sulphate and of superphosphate

of lime is considerable. Some of the deficiencies might be met up to a point out of raw material resources of the "Co-Prosperity" Sphere. It will, however, be an immense task for Japan to supply with fertilisers the agricultures of the newly conquered countries.

There can be no doubt that Japan's industrial capacity has been increased to a spectacular extent in recent years. For this very reason, however, it seems unlikely that, in existing circumstances, the pace of the increase can be maintained. Indeed, in many branches the increase is bound to slow down, if not stop altogether. Like everywhere else war conditions created an acute scarcity of labour in Japan. This is admitted in the German Press, which seems to miss few opportunities for belittling the economic war effort of Germany's Axis partner, and which usually describes Japan's difficulties with an ill-concealed glee. The main difficulty is lack of shipping space. It is because of this deficiency that Japan is unable to expand her steel industry in accordance with requirements, and the lack of adequate steel supplies provides in turn a handicap to the development of all other industries, not in the last place of shipbuilding. Lack of shipping space is also responsible for the necessity of producing in Japan foodstuffs and raw materials which could otherwise be imported from the conquered countries, and the agricultural labour thus released could be employed in industries. For all these reasons it seems probable that, generally speaking, Japanese industries will have to consolidate their recent progress in the near future rather than embark upon further expansion on a large scale.

It may be argued that a conversion of Japan's vast arms industries for peace-time requirements would produce a surplus of manufactures for satisfying the requirements of the "Co-Prosperity" Sphere. This argument is entirely untenable. In the unlikely event of the Axis winning this war, Japan would have to remain armed to the teeth, partly to keep the vast conquered territories in perpetual subjection, and partly to prepare for the inevitable clash with Germany. And if the war should end in a

stalemate; with Japan remaining in uneasy possession of all or most of her conquests, she would have to prepare for a second trial of strength with the United Nations. Nothing short of practically complete world conquest — an eventuality which is beyond the wildest dreams of all but the most extreme hotheads in Tokyo — would create political conditions in which Japan could afford to switch over from the production of guns to the production of ploughshares.



## CHAPTER IX

### INADEQUATE SHIPPING FACILITIES

ON repeated occasions we pointed out in previous chapters that the weak spot in Japan's economic armour is inadequacy of her shipping facilities. This deficiency is all the more worth noting since shipping plays an incomparably more important part in Japan's war economy than in Germany's war economy. Practically all Germany's armies can be supplied by land route, and even though it is very convenient to be able to relieve the inland transport system with the aid of coastal shipping, this does not play a vital part in Germany's war economy. Japan, on the other hand, has to employ long-distance shipping for supplying all her armies engaged on her various battle fronts. Some of these battle fronts are very far removed from the base, and the military requirements of shipping are consequently very substantial. In addition, there are vital economic requirements.

It is remarkable that, even though it was easy to foresee an increase of requirements in shipping space as a result of Japan's ambitious conquests, no adequate preparations were made by Japan to meet these requirements. In 1939 the Japanese merchant fleet was a very poor third in the list of the world's merchant fleets. Its tonnage amounted to 5,600,000 gross tons as compared with 20,400,000 tons for the British Empire and 11,900,000 tons for the United States. Admittedly, efforts were made to catch up with the leading maritime nations, as is shown by the fact that in 1939 the percentage of ships under five years old was much higher in the Japanese merchant fleet than in any other. Nevertheless, this was due more to the reluctance of other nations to build new ships during the depression than to any spectacular Japanese efforts. With an amazing short-sightedness, Great Britain allowed her merchant fleet to decline by selling idle tonnage at

bankrupt prices to her rivals, and by reducing her shipbuilding capacity. Japan, on the other hand, passed special legislation in 1932 to encourage shipbuilding in spite of the unfavourable conditions in the freight market. Even so, the tonnage of merchant ships launched by Japan in any single year never exceeded 750,000 tons, and in some recent years it has been as low as 400,000 tons. This is all the more remarkable since her shipbuilding capacity is estimated to be in the neighbourhood of 1,000,000 tons per annum. It does not seem reasonable to suppose that on the eve of the war Japan failed to utilise her shipbuilding capacity to the full. It seems probable that the discrepancy between her capacity and the actual output of merchant ships is due to the acceleration of the expansion of the Navy. After the denunciation of the Naval Agreement, or, possibly, even before, Japan must have made the utmost effort to catch up with the Navies of Great Britain and the United States. It is known that some of the largest shipyards were reserved entirely for the construction of warships.

Even allowing for this consideration, it seems remarkable that no bigger efforts were made to expand the shipbuilding capacity in order to be able to increase the merchant fleet more rapidly in spite of the rapid naval expansion. The explanation is shortage of raw materials and skilled labour. What must have happened was that Japan was concentrating her by no means unlimited resources on strengthening her Navy and her Air Force while failing to increase adequately her merchant fleet. Judging by the extent to which she is now handicapped by the lack of adequate shipping facilities, it is obvious that this was a mistaken policy. It is, indeed, gratifying to see that the Japanese, who have been ever so much better prepared than the Allies for a war in the Pacific, are, after all, not supermen and are liable to make gigantic mistakes. Their initial successes and the evidence of a remarkable degree of foresight and preparedness in many respects earned them the reputation of infallibility, just as the Germans, through their initial successes, conveyed the impression that they

were invincible. It is of the utmost importance that the public of the United Nations should avoid developing an inferiority complex, and for this reason it is to be deplored that up to the time of writing the gigantic mistake committed by Japan received no adequate publicity. Had the Japanese Government concentrated before the war more of the country's resources on the expansion of the merchant fleet at the cost of slowing down the expansion of the Navy and of the Air Force, the initial successes in the war in the South-Western Pacific might have been less spectacular. On the other hand, Japan would have been in a better position to follow up her early victories by further conquests of even greater importance or, at any rate, she might have been in a better position to hold the territories gained.

Since the outbreak of the war in the Pacific the Japanese shipping position must have deteriorated quite considerably. Japan suffered heavy shipping losses, especially during her early attempts at the conquest of the Dutch East Indies and again in the autumn of 1942 in the Solomon Islands and New Guinea. On the credit side of the balance-sheet there is the increase achieved through the seizure of some 200,000 tons of Allied ships, the chartering from the Vichy Government of some 200,000 tons of French ships found in ports of Indo-China, the output of the Japanese shipyards, and the salvage of Allied ships sunk before the capture of the various Allied ports. Had the war in the Pacific broken out six months earlier Japan would have been able to seize Allied shipping well in excess of the 200,000 tons she actually seized. She had chartered a considerable tonnage of Dutch ships, a large part of which was recovered during the summer and autumn of 1941, when the charter agreements expired. These agreements were denounced when commercial relations with Japan were broken off in July 1941. As a result of the interruption of commercial relations with Japan there were very few Allied ships in Japanese ports at the outbreak of the war. On the other hand, it is true there were very few Japanese ships in Allied ports.

Considering that shortage of shipping space is the weakest spot in Japan's war economy, it is deplorable that the Vichy Government should have gone out of its way to remedy this deficiency by handing over the French ships in Indo-China. Vichy must have been aware that in case of Japanese victory there was not the faintest hope for France to recover her possessions in the Far East. Admittedly after the collapse in 1940 she was not in a position to put up a fight to defend that distant outpost of her Empire; and, in any case, she could ill afford to refuse Berlin's demand that Indo-China should be handed over to Japan without resistance. Nevertheless, the Vichy Government was in a position to give confidential instructions to her merchant ships to seek refuge in Allied or neutral ports. In doing so she would have contributed towards Allied efforts to defeat Japan and to restore to France her Far Eastern possessions. As it is, the French ships have been passed into Japanese hands with the connivance of the Vichy authorities, and are now used to defeat any attempt to recover French Indo-China from Japan. This fact in itself shows the utter hypocrisy of the Vichy Government in posing as the "defender" of the French Empire whenever the Allies wanted to occupy temporarily some French possession in order to forestall its occupation by the Axis Powers.

The total tonnage of Allied ships scuttled or sunk through enemy action in Allied ports now occupied by Japan is estimated at about 500,000 tons. In July 1942 it was claimed that some 50,000 of these had already been salvaged. It ought to be borne in mind, however, that after salvaging these ships have to undergo extensive repairs, and that the capacity of Japanese dockyards is already taxed to the utmost with the task of repairing Japanese ships damaged through Allied action.

For the same reasons it is improbable that Japanese shipyards were able to produce a considerable tonnage of new merchant ships during the war. It is true that in Singapore, the Philippines and the Dutch East Indies Japan has gained possession of some shipyards which, even though

damaged during the hostilities, were capable of being put into working order. Nevertheless, these shipyards have not so far played any noteworthy part in the expansion or maintenance of the Japanese merchant fleet. The Japanese shipyards, then, must be occupied more than ever with meeting the naval requirements. Naval losses have to be replaced and damaged warships have to be repaired urgently. It seems unlikely, therefore, that the priority of the claims of the Navy over those of the merchant fleet has been reversed.

Taking everything into account, it does not seem probable that the tonnage of merchant steamers in Japan is, at the time of writing, much in excess of 7,000,000 gross tons. Of this tonnage perhaps 5,000,000 tons are suitable for ocean traffic, 1,500,000 tons consist of smaller steamers usually employed for coasting trade, while 500,000 tons are probably under repair.

According to Japanese Press reports, at the close of 1942 the shipment of goods amounting to some 12,000,000 tons was held up for lack of shipping space. While Japan was short of rice there was an unusable surplus in Burma.

Obviously the shipping facilities are barely sufficient to meet military requirements let alone the requirements of shipping space for the development of the "Co-Prosperity" Sphere, which are officially estimated at between 15,000,000 and 20,000,000 tons. These estimates may be exaggerated, for before the war the actual requirements of the countries at present under Japanese control amounted to some 10,000,000 tons per annum, less than one-third of which was provided by Japan. To reach even this lower figure, however, appears to be far beyond Japan's present ship-building capacity. In any case, the immediate problem is not to provide shipping space for the development of the "Co-Prosperity" Sphere but to satisfy military requirements and the most urgent economic requirements of Japan.

To that end a number of measures have been or are being put into operation. Many ships have been diverted from coastwise trade to long-distance transport, even

though in doing so the burden on the inland transport system had to be increased considerably. A number of sailing ships have also been diverted to long-distance transport. Japan has embarked on the construction of a large number of small wooden sailing ships, because it is easier to provide the raw material, labour and shipbuilding facilities for the construction of such ships than for the construction of large steel steamers. In the conquered countries, too, efforts are made to produce the largest possible number of small craft. In Japan itself every effort is being made to relieve the pressure on shipping space by using home-produced raw materials and foodstuffs in the place of those formerly imported, even if the quality is inferior. Thus whatever may be the result of the conquests on Japan's economic system in the long run, the immediate result is, to a large extent, an intensified utilisation of her own resources. Surely this could have been achieved much better without having to embark upon a war of conquest.

It seems certain that during the war Japan will have no shipping space to spare to meet the requirements of the subject races. The latter will have to manage almost entirely without importing from overseas the consumption goods which they were in the habit of consuming before the invasion. If Japan should have any shipping space to spare for exports to the conquered countries or for trade between the conquered countries themselves, it will be confined largely to capital goods required for the development of their resources in her own interests. Nor would the situation improve immediately after the war if Japan should succeed in retaining possession of her conquests. It would take years before Japan could develop her shipbuilding capacity to a sufficient extent to meet the full requirements of the "Co-Prosperity" Sphere, nor is she likely to be in a hurry to do so beyond the degree required for the fuller satisfaction of her own needs. It would take a long time before even that stage is reached, and then Japan would divert her resources to other industrial purposes rather than continue building ships for the benefit of the subject races.

A word must be said about land communications within the "Co-Prosperity" Sphere. The railway system in recently conquered countries suffered heavily during the hostilities and through the "scorched earth" policy. The first task is to repair these damages. This work is proceeding at a slow pace, judging by the fact that it took the Japanese six months to restore direct railway traffic between Batavia and Surabaya.

All sorts of ambitious plans are under consideration for linking the conquered countries in the South-Western Pacific with Central and Northern China through the construction of a railway system. The task would be immense, and it is doubtful whether Japan would be able to spare the resources during the war. And yet the facilities to be provided would only be useful in time of war, for in time of peace it would be incomparably cheaper to use the sea route instead of the long land route between Singapore and, say, Shanghai or some other Chinese port whence the goods would reach their final destination in Japan. Nor is Japan's motor industry sufficiently developed to enable her to spare the required number of lorries for long-distance road traffic even if the roads existed for the purpose. To some extent this device may have been resorted to because of the shortage of shipping space. The choice will be, however, between two evils, for the Japanese motor industry needs all its capacity for the production of aircraft, tanks and other military vehicles.

It is evident that the sudden expansion of Japanese control over vast new areas separated from Japan by long stretches of sea presented Japan with some very awkward transport problems. It was possible to conquer the outlying territories through one successful lightning campaign during the course of which Japan's opponents were caught largely unprepared, but it will be much more difficult to retain these acquisitions in the absence of adequate means of transport, which will place Japan at a disadvantage when preparations by her opponents will have reached a more advanced stage. Any further conquests would be difficult, if not impossible, unless and until Japan has

increased materially her merchant fleet.

These elementary facts are, doubtless, realised in Tokyo, and it seems probable that the Japanese Government is now concentrating much effort on providing additional shipbuilding facilities. The figures put out by Japanese propaganda representing the target of the shipbuilding drive run into millions of tons per annum. This target is, no doubt, over-ambitious, though judging by the experience of the United States and this country it would be wishful thinking to rule out the possibility of a very marked expansion of shipbuilding facilities within the next year or two. Handicapped as Japan is by her lack of skilled labour and by the competing requirements of the fighting Services, there can be no doubt that if she should decide to concentrate her resources on making good the main deficiency of her war economy she will be able to produce spectacular results. At the same time, however, the capacity of the United Nations to sink Japanese ships is also increasing rapidly, and with the re-conquest of some of the strategic points lost at the beginning of the war in the Pacific, the Allies' navies and air force will be in a good position to intercept seaborne traffic between Japan and the conquered countries.

The outcome of the war in the Pacific will depend largely on Japan's ability to increase her shipbuilding capacity and shipping tonnage. There can be little doubt about Japan's capacity to solve her shipping problems after the war. In possession of her new raw material resources she would be able to build up a formidable navy and merchant fleet, and would increase considerably her striking power. For this reason alone there could be no question of concluding a peace which would leave Japan in possession of her overseas conquests.



## CHAPTER X

### FOREIGN TRADE UNDER THE "NEW ORDER"

IN examining the foreign trade of the Japanese "Co-Prosperity" Sphere, our first task is to inquire into the prospects of trade between countries belonging to the group, and our next task is to investigate prospects of trade between the Japanese "Co-Prosperity" Sphere and other countries or groups of countries. The question is: Will the trade relations within the Japanese "Co-Prosperity" Sphere be of a similar character to those prevailing in German-controlled Europe or will they follow on the lines of trade relations between Japan and her pre-Pearl Harbour conquests? As is well known, the trade balance of Germany in relation to German-controlled countries has been all along strongly adverse. Germany imports as much as she can possibly squeeze out of them, and she exports as little as possible. This was not altogether the line followed by Japan in relation to Formosa, Korea and Manchuria, or even in North China and Central China. In the case of all these countries Japan has been exporting capital goods on a large scale in order to be able to exploit their natural resources. Consequently, her trade balance in relation to the countries she conquered prior to 1941 showed more often than not an export surplus. This does not mean that the populations of the countries conquered prior to 1941 were not exploited by Japan. Their standard of living was reduced through a diminution of their agricultural production and through the export to Japan of an unduly large proportion of the reduced quantities of food produced. The price paid by Japan for these products was unduly low, and the price charged for the consumption goods exported to the conquered countries unduly high. As soon as foreign competition was eliminated as a result of the conquest of these territories Japanese exporters raised their price. The conquered peoples stood to benefit little or nothing from the

establishment of industries and from the exploitation of their mineral resources. All this was done solely for the benefit of Japan.

The difference between the German and the early Japanese experience lies in the fact that until Pearl Harbour Japan was not fully engaged in the pursuit of war. She was far from being fully mobilised, and kept a large part of her man-power in reserve for the day of reckoning with the European Powers, the United States and the Soviet Union. Although military preparations were pursued feverishly, Japan's increased industrial capacity made it possible for her to export capital goods to the conquered countries.

The situation underwent a complete change as a result of the developments in the South-Western Pacific at the end of 1941 and the beginning of 1942. Japan had added vast new territories to her former conquests. The requirements of these territories for capital goods were immense, owing to the "scorched earth" policy which necessitated replacement of destroyed equipment. Japan's industrial resources were, therefore, called upon to meet far larger requirements than before. At the same time the industrial resources available for the purpose had become drastically curtailed. As a result of her attack on the United Nations, Japan had to mobilise her full war potential. This meant the withdrawal of young men from industry and the diversion of industrial capacity for arms production. Consequently, Japan's capacity to supply with capital goods the countries under her control, whether recently conquered or not, has become materially reduced. Similarly to Germany, Japan has now concentrated all her economic resources on the pursuit of the war and has no time for exporting capital goods to the conquered countries beyond what is urgently needed for the production of raw material for the Japanese arms industry.

The chances are, therefore, that Japan's trade policy in relation to the conquered countries will show, from 1942 onwards, a heavy adverse balance. This is fully realised, and it explains Japan's decision to adopt an exchange clearing system with the aid of which, as the German

experience has proved, it is possible to work up a large indebtedness in relation to conquered countries.

It is part of the "Co-Prosperity" plan that Tokyo should become the clearing centre for the entire "Co-Prosperity" Sphere. The example of Germany has clearly proved, however, that, owing to the heavily one-sided character of trade between conqueror and conquered, the multilateral clearing system is unworkable. If some countries had a debit balance in their relation to Japan, while others had a credit balance against Japan, it would be possible to offset these balances against each other. Since, however, all countries will have credit balances against Japan, there is no scope for multilateral clearing.

The experience of German-controlled Europe shows the impossibility of working an international clearing arrangement in the circumstances. As far as trade relations between the conqueror and her victims are concerned no problem arises, since Germany simply helps herself to the resources of the conquered peoples, and the latter simply have to accept more and more frozen reichsmark balances in payment for their goods. When it comes to trade between the various conquered peoples themselves, then the situation is not so simple. While Belgium has to sell her goods to Germany against payment in frozen reichsmarks, the same compulsion does not apply to purchases by Denmark from Belgium. Trade between conquered peoples is largely a matter of negotiation, though in every case Germany has the last word. If the view is held in Berlin that the sale of Belgian goods to Denmark would enable Denmark to deliver more goods to Germany, then Belgium can be forced to accept frozen reichsmarks from Denmark just as she is forced to do so in payment for her exports to Germany.

When it comes to the satellite States with a show of independence, the situation is more complicated. For reasons of her own Germany is anxious to keep up the fiction of the independence of these countries, and while she orders them about to her heart's desire for her own purposes, she does not usually interfere in their relations with each other. Thus trade between Rumania and Bulgaria,

for instance, is regulated by agreement negotiated between the two countries, largely free of Germany's interference. While Germany does not hesitate to compel the conquered countries to accept frozen reichsmark balances in payment for their exports, she is reluctant to apply such compulsion against the so-called small ally. Consequently, the vassal States are anything but keen on accepting frozen reichsmark balances in payment for their exports to other vassal States. In the trade relations of Rumania and Bulgaria, during the year 1941-1942, the trade balance showed a big surplus of Rumanian exports to Bulgaria. This surplus was settled according to the original agreement through the transfer of some frozen reichsmarks from Bulgaria's clearing account to Rumania's clearing account in Berlin. The Rumanian Government, however, was far from satisfied, since even without the Bulgarian frozen reichsmarks it had more than enough frozen marks of its own. Accordingly, when the trade agreement with Bulgaria was renewed, the Rumanian negotiators insisted that henceforth Bulgaria must deliver more goods if she wanted to maintain her vitally important oil purchases from Rumania. This shows that as a result of the failure of the multilateral clearing there is a tendency towards bilateralism in trade within the German "Co-Prosperity" Sphere in Europe, at any rate as far as the trade between the vassal States is concerned.

It is impossible to say at this stage whether the Japanese "Co-Prosperity" Sphere will have a similar experience. There is no reason to suppose, however, that it would be otherwise. In so far as the conquered countries will be governed by Japanese authorities, their trade with each other, as their trade with Japan, will be determined from Tokyo. If, however, Japan wishes to maintain the fiction of the independence of some of the puppet Governments, such as those of Siam, Indo-China, Nanking, etc., then trade between these countries will tend to be forced into the strait-jacket of bilateralism. Since Germany, with her superior experience and her unequalled technique in the management of exchange clearing, was unable to make

multilateral clearing succeed in fulfilling the functions assigned to it, how could Japan hope to succeed, considering that she is a novice in the art of exchange clearing?

It is certain that Japan, as Germany, will end the war with a huge debit balance on her clearing accounts. If, as we have every right to assume, the war will end with the victory of the United Nations, the liquidation of this balance will present a very difficult problem. It will be but one of the many claims of the liberated countries against Japan. There will also be the claims for requisitioned goods, for the notes issued by the Japanese authorities, for the amounts seized in banks, etc. It would be idle to speculate at this stage which of these claims will enjoy priority over the others, and whether Japan is likely to have assets to meet them. We are only concerned in this volume with the "Co-Prosperity" system as envisaged by Japan, and this presumes for the sake of the argument an outcome that would leave Japan in possession of her conquests.

Would, in that unlikely event, Japan be able and willing to liquidate her huge indebtedness towards the conquered countries? The same problem would exist also in relation to Germany. A number of official or officially inspired German speakers or writers have laid much stress on Germany's determination to repay the frozen clearing balances by means of an export surplus in relation to the conquered countries. In fact a theory was conveniently put forward by Dr. Landfried, Under-Secretary of State of the Ministry of National Economy, according to which these frozen balances are, in reality, the emergency reserves of the German-controlled countries, reserves which will become very useful to them during the post-war period of reconstruction. Even in the absence of any evidence it seems reasonable to assume that this is, or will be, the line taken also by Japanese propaganda, and that Japan seeks to make the facts of her growing indebtedness to conquered countries palatable by making extravagant promises about her exports to these countries after the war. Both German and Japanese promises in this respect are obviously insincere. There can be no doubt that both countries would

be guided solely by their own interests. If it suited them to export capital goods in order to be able to obtain more raw materials for the benefit of the ruling race, then they will, undoubtedly, export those capital goods. We saw at the beginning of this chapter that this was in fact done in relation to Japan's earlier conquests. On the other hand, it is safe to assume that Japan will not export to the "Co-Prosperity" Sphere a single yen's worth of goods merely for the sake of fulfilling her liabilities under the clearing agreements. Nor is it certain by any means that her exports of capital goods will offset her imports of raw materials from the conquered countries even after the war. The experience of primitive countries, such as Formosa, Korea and Manchuria, need not repeat itself in the case of economically much more highly developed countries, such as the Philippines, Java, Malaya or Burma. In most of the countries which Japan conquered prior to December 1941, she had to do a great deal of investing before being able to reap the fruit of her conquests. In the case of most of the countries of the South-Western Pacific, however, the investing has already been done by Americans, Britons, Dutchmen, etc., and even though the "scorched earth" policy destroyed much of the plant and installations, Japan has, nevertheless, inherited capital assets of immense value. Thus, while her earlier conquests were, for the most part, deficiency countries, her more recent conquests are likely to prove to be countries able to produce surpluses from the very outset. This would mean that so far from liquidating, after the war, her frozen yen balances on the clearing accounts of recently conquered countries, she would continue to increase them. The conquered countries would continue to be drained in time of peace as in time of war.

To those who maintain that in trying to live on a perpetual import surplus at the expense of the conquered countries Germany and Japan merely follow the precedent of the British Empire, it should be pointed out that until comparatively recently the United Kingdom had been exporting to her overseas possessions more than she had been importing from them. Before the United Kingdom

was able to draw a dividend from her overseas possessions it was necessary for her to sink into them vast amounts of capital. On the other hand, Germany and Japan simply wish to benefit by the proceeds of capital created by the conquered countries themselves or invested by earlier colonisers. While British rule in her Empire is essentially constructive, the rôle Germany and Japan mean to play in the countries under their control is largely that of the parasite. This does not mean, of course, that Germany and Japan will not increase the national wealth of the territories under their control by the development of their hitherto unused natural resources. While Germany can do very little in that direction in Northern and Western Europe, there is ample scope for development in Eastern and South-Eastern Europe. As for Japan, she has ample scope for development in all the conquered countries. While, however, the British Empire was developed at the risk of British investors, the development of the German and Japanese Empires is meant to be carried out with the aid of the financial resources of the conquered countries themselves. Germany is already financing such expansion of industrial activity as is taking place in the conquered countries or vassal States with the aid of an inflationary expansion of the currencies of the countries concerned. Japan has laid down the rule that each conquered country has to be financially self-supporting. While it will be necessary for Japanese industries to supply the capital equipment for the development of the natural resources of the conquered territories, this will not be done on a credit basis as it was done in the British Empire, but against cash payments. Japan will get the best of both worlds. The equipment exported to conquered countries will benefit the Japanese-controlled undertakings in charge of their exploitation, and the purchase price will be collected in the form of immediate deliveries of foodstuffs and raw materials.

Let us now examine the prospects of the trade relations between the Japanese "Co-Prosperity" Sphere and the rest of the world. It goes without saying that these trade

relations would be entirely determined from Tokyo. While it is possible and even probable that members of the "Co-Prosperity" Sphere would be allowed a certain degree of freedom to trade with each other — provided always that the goods they wished to buy from each other are not required by their Japanese lords and masters — their imports from and exports to countries outside the "Co-Prosperity" Sphere would be under Japanese control. One of the trump cards of the German "New Order" propaganda is that after the war German-controlled Europe would be able to appear as one huge single buyer and seller in the world markets, and that in her trade with other continents Europe would have the immense advantage of presenting a united front. The same argument has been used also by Japanese propaganda with regard to Asia.

Evidently the Japanese "Co-Prosperity" Sphere does not aim at complete self-sufficiency any more than the German "New Order". Indeed, while the conquest of a large part of Asia would enable Japan to cover all her food requirements and most of her raw material requirements, she would remain deficient in manufactures to a high degree. In order to be able to supply the conquered countries with capital goods Japan would have to import vast quantities of such goods from Europe or from the United States. In addition, the improvement of the standard of living of the Japanese ruling race would lead to a very considerable increase of the imports of luxuries by the Japanese Empire.

In Berlin the German and Japanese "Co-Prosperity" Spheres are considered to be perfectly complementary to each other. The Japanese "Co-Prosperity" Sphere would be able to supply most of the raw materials needed by Germany, while German-controlled Europe would be able to supply the machinery, equipment, etc., needed by Japan. While Japan approves the principle of such an exchange, at the same time she had embarked on the reduction of the capacity of the conquered countries to produce rubber, sugar, coffee, etc., in excess of the requirements of the "Co-Prosperity" Sphere. This may be a temporary war-



time measure only, but it is viewed, nevertheless, with some misgivings from Berlin. However, there can be no doubt but that after the war Japanese-controlled countries would have to produce large surpluses of raw materials in order to be able to import what is needed by Japan. In addition, there is evidence that in some influential quarters the view is held that the Japanese Empire must export in excess of her imports in order to be able to accumulate a large gold reserve. This, at any rate, is the declared policy of Mr. Kishi, Japanese Minister of Industry, who considers an accumulation of a large gold reserve an essential part of Japanese power policy. This view is looked upon with undisguised contempt in Germany, where gold is considered to be useful solely for the purpose of making payments for imports from countries which are "backward" enough to want to accumulate a gold reserve. This conception is shared by part of Japanese official and expert opinion, but there is reason to believe that for considerations of prestige Japan would be only too anxious to accumulate a vast gold reserve after the war.

This would mean that, while the conquered countries would be made to export as much as possible after covering the requirements of Japan and the other countries of the "Co-Prosperity" Sphere, their imports would be kept down. They may be allowed to import from outside the "Co-Prosperity" Sphere capital goods, with the aid of which they could increase their production. On the other hand, the importing of consumption goods from outside the "Co-Prosperity" Sphere will be reserved as the privilege of the Japanese ruling race. The subject races will have to do with whatever goods they themselves can produce, or which they can purchase from other subject races, or which their Japanese masters graciously consent to sell them. In the absence of an adequate quantity of manufactured consumption goods their standard of living would inevitably decline, and would remain well below its pre-war level. It is inconceivable that Japan would sacrifice any part of her own immediate interests by doing without some imports for the sake of restoring in the conquered countries the

living conditions which prevailed before the invasion. The colonies would be exploited to the utmost to enable Japan to import from outside the "Co-Prosperity" Sphere whatever she needs for her own requirements, and to build up a gold reserve that is in keeping with Japan's increased power.

The trade balance of the "Co-Prosperity" Sphere in relation to the rest of the world would shape out in the following way: Japan herself would have a strongly adverse balance, but this would be more than offset by the favourable trade balances of the conquered countries. This would mean that the conquered countries, in addition to producing an export surplus in their trade with Japan, would also have to produce a substantial export surplus in their trade with countries outside the "Co-Prosperity" Sphere. They can only achieve this result by keeping down their standard of living, not only by consuming less goods from outside the "Co-Prosperity" Sphere, but also by reducing their consumption of their own products.

## CHAPTER XI

### BANKING IN JAPANESE-OCCUPIED ASIA

ONE of the first tasks of the Japanese authorities in conquered countries has been the destruction of the existing banking system through the liquidation of the banks belonging to the United Nations. This measure was not carried out in a uniform fashion. In Hong Kong, Shanghai and other banking centres occupied by Japan, British and American banks were closed down immediately and their operations were confined to the repayment of deposits up to a limit fixed by the Japanese authorities. In the Netherlands East Indies, on the other hand, the Dutch banks were allowed to remain open for some months. It was not until the autumn of 1942 that the Japanese authorities decided to liquidate not only the branches of banks established in Holland but also the Dutch banks with head offices in the Dutch East Indies.

To some extent the liquidation of banks controlled by the Allies, especially of British banks, may have been a retaliatory measure provoked by the liquidation of the London branch of the Yokohama Specie Bank. The situation is, however, totally different. Once this country was at war with Japan the London branch of that bank served no longer any useful purpose. This fact was recognised by the Japanese Government itself. Some time before the outbreak of the war in the Pacific it ordered the closing down of all Japanese banks in London with the exception of the Yokohama Specie Bank. These Japanese branches were solely concerned with financing trade with Japan and other Asiatic countries, and played no part in the commercial and financial life of the country where they were established. On the other hand, the British, Dutch and American banks established in the Far East, in addition to financing trade with their respective countries, have played a very important part in the financing of the internal trade and general foreign

trade of the countries where they were established. They formed an essential part of the economic systems of these countries. By closing down these branches prematurely, before the Japanese banks had a chance to assume the rôle hitherto played by these banks, the Japanese authorities have contributed in no slight degree towards the economic disorganisation of the conquered territories. This was all the more the case since the Tojo Government was far from favourable towards the replacement of the liquidated banks by corresponding Japanese banks. With the exception of the official banks, Japanese banks, unless previously established in the countries concerned, were in fact forbidden to open branches in order to fill the gap created by the liquidation of European and American banks.

It took some time before the official banks succeeded in establishing themselves in the conquered countries, and even up to the time of writing they have been unable to extend their operations to a sufficient degree to satisfy the banking requirements of the countries where they were established, reduced as these requirements are in consequence of the economic conditions created by the Japanese conquest. The deposits held by the white population were blocked, and even the deposits owned by natives were subject to restrictions. At the same time it was very difficult to obtain credits, for the banks in liquidation initiated no new business, while the Japanese official banks were not yet in a position to extend credit on a big scale. It seems reasonable to suppose that the disorganisation of the banking system by the Japanese authorities produced a strong deflationary effect and contributed to no slight extent to the trade depression in conquered countries.

While in many respects Japan follows the German example in the economic organisation of conquered countries, this is not so in the sphere of banking. In German-conquered Europe the leading German commercial banks were allowed and encouraged to establish themselves in the countries which have come under German control either through conquest or through surrender. Accordingly, the Deutscher Bank, the Dresdner Bank and some lesser

German commercial banks hastened to reach out their tentacles to seize their share of the booty as soon as a new country came under German control. There was keen competition among the leading German banks to secure the control of the best banking connections in countries under German domination. Their greed was encouraged by the German Government, partly because it was in accordance with their idea of German prestige that the entire European banking system should come under German control, and partly because by allowing the banks to take a hand in the looting of conquered countries the Nazi régime is securing their complicity. Had the bankers and industrialists chosen to stand aloof and keep their hands clean, they might have been regarded as the mainstay of a potential alternative régime with which it would be possible for the Allies to conclude peace.

Apparently the Japanese Government was influenced by no such considerations, or, if such agreements were considered at all, they were outweighed by other considerations. For, so far from encouraging the privately owned Japanese banks to establish themselves in conquered countries, the Japanese Government refused to authorise them to open branches there. According to Japanese Press reports soon after the conquest of the Philippines, Dutch East Indies and the Malayan Peninsula, some of the leading Japanese banks, such as the Mitsubishi and Yashuda banks, applied for permission to open branches in Batavia and other centres, but the Government's attitude was decidedly unfavourable. Indeed, up to the time of writing, no Japanese privately owned bank is known to have obtained permission to open branches in any of the newly conquered countries. This situation need not necessarily be final, but pending the consolidation of Japanese rule, new investments of Japanese private capital will remain excluded.

The only Japanese banks which are allowed to operate in these territories are those owned by the Japanese Government. A bank under the name of South Seas Development Bank was established for the purpose of operating in newly conquered territories. This bank has been granted the

complete control of the investment of capital in the newly conquered countries. Its capital of 100,000,000 yen was subscribed entirely by the Government. The bank has the privilege of note issue, but for the present it only issues the military invasion currency introduced by the occupation army. It is authorised to issue bonds to the amount of 1,000,000,000 yen, and so far as possible these bonds are to be placed in the conquered countries themselves in accordance with the principle that they should be financially self-supporting. The South Seas Development Bank is to provide funds for the development of the resources of the conquered territories. Its task is to regulate money and credit conditions there. It is entitled to transact commercial banking business, to accept deposits, grant credits, buy and sell gold and silver, transact foreign exchange business, etc. It will grant long-term loans against mortgage to agriculture and industry. It may open branches all over the conquered territories. It was the original intention of the Japanese Government that the South Seas Development Bank should play the part of a banker's bank, confining its relations to banks and similar organisations having no direct relations with the public. It seems doubtful, however, whether this principle is still upheld, for, in the meantime, it has been decided to liquidate the local banks of importance, not only those which have their head office outside the conquered countries but also those established in the conquered countries. The policy aims at the complete elimination of European control from banking as from the other sections of economic life. Once this policy is carried out there will only remain a number of more or less insignificant native banks, such Javanese banks as have existed before the conquest. In addition to them, only officially controlled banks such as the Yokohama Specie Bank and the Bank of Taiwan are allowed to open branches.

The opposition of the Tojo Government to the establishment of privately owned Japanese banks in the conquered territories and to the acquisition of participations by private capital in general may appear at first sight inexplicable. It is an entirely new attitude, for the Government and the

military authorities did not oppose private banking and industrial interests taking an active hand in the exploitation of Manchuria and occupied China.

The explanation of this attitude lies in the rivalry that has existed for a long time in Japan between the Army and the leading banking families. The Mitsui and Mitsubishi families are known to have been opposed to a war with Great Britain and the United States. On the basis of their more extensive knowledge of the strength of the Anglo-Saxon countries, they considered it against Japan's interests to embark on a war against them. The military caste with its narrower outlook overruled the bankers' objections, and succeeded in forcing its will on the Emperor. Once the decision was taken, the bankers naturally waived their opposition and were willing to collaborate in the execution of a policy the success of which they considered doubtful. Nevertheless they continued to be viewed with suspicion by General Tojo's Government. It was felt in military circles that the bankers offered the possibility of an alternative Government, and that, should the military situation change for the worse, their influence on the Emperor and on the Japanese public would prevail. For this reason the military leaders decided that the bankers should be prevented from increasing their power through taking part in the exploitation of the immense resources of the newly conquered countries. They realised that the loot was so immense that the big banking and industrial families would be able to amass additional wealth if given a chance to do so. The unexpectedly quick initial victories gave the military caste sufficient power and prestige to enable them to defy the bankers. While they did not go so far as to close down the existing privately owned Japanese branches in Shanghai and elsewhere, they refused to authorise new branches. At the same time, the seizure of property in conquered countries was made entirely for the benefit of the Japanese Government, and the industrial concerns and the banking families were not allowed to participate in the spoils.

The immediate task confronting the Government-

owned Japanese banks established in the newly conquered territory was to finance production hitherto financed by European or American banks, and to finance export trade to Japan and the other parts of the "Co-Prosperity" Sphere. This task is immense and there can be no doubt that it could be more efficiently performed if the leading privately owned banks had been allowed to take a hand. However, political considerations prevailed and privately owned banks remained excluded, even at the cost of hampering thereby the progress of the economic recovery in the conquered countries.

The Tojo Government is making efforts to weaken also private financial interests already established in Manchuria. To that end the statutes of the Bank of Manchukuo have been revised. That bank, which was originally established as a joint-stock company, has become a Government-owned corporation. It has been given extensive powers of inspection and control over privately owned banks established in the country. Not only is the Bank of Manchukuo now in a position to supervise all the operations of the privately owned banks, but it is also in a position to dictate their credit policy in accordance with the requirements of the new Five-Year Plan for the development of Manchuria.

It is worth noting that no objection is raised to the creation of new banks by the non-European inhabitants of the conquered countries. The only place where this is actually being done on any noteworthy scale is Shanghai. Since the Japanese occupation of that city some twenty new banks have actually been opened, and preparations are on their way for the establishment of a further forty banks. This is due to the presence of vast liquid resources, and the main object of the new banks is to cater for the requirements of the owners of these funds. Needless to say, these banks, together with the existing Japanese banks and German and Italian banks which are allowed to remain, are under strict supervision by the Japanese authorities. Even so it might appear that the Japanese Government is more liberal towards the banks of the subject races than towards those of the ruling race. This policy, which may at first



sight seem to be at conflict with the general selfish attitude of Japan, can be explained, however, on the ground that the conquered peoples dislike and distrust Japanese banks and are more likely to bring their deposits to banks owned and managed by their own nationals. The permission to the conquered peoples to open their own banks may be regarded as a bait to attract local deposits. It was with this object in mind that the Nanking Government made arrangements for the reconstruction in Shanghai of the Bank of China and the Bank of Communications. Both these banks have their head offices in Chungking, and their branches in Japanese-occupied territory were closed down some time ago. These branches are now reopened under the auspices of the Nanking Government in order to take advantage of the prestige enjoyed by both banks among the Chinese public. The branches are taken over by newly established companies which usurp the names of the two banks.

In order to weaken the power of the privately owned banks in Japan itself, the Tojo Government carried out a drastic revision of the statutes of the Bank of Japan so as to extend its powers. Until now, the private banking families have succeeded in safeguarding their interests against competition by the Bank of Japan. Its statutes confined its activities to those of a pure Central Bank. Henceforth under the new Banking Act it will be authorised to transact commercial banking business, the granting of loans on securities and on commodities, dealing in foreign exchanges, financing industries and conducting open market operations. As a result of these measures the Government's grip on private banking is strengthened considerably. The necessity for a revision of the statutes of the bank in order to adapt them to Japan's new position as the centre of a vast Empire was taken as an excuse for this increase in the bank's sphere of activity. In reality it would have been sufficient to authorise the Bank of Japan to establish exchange clearing accounts, but simultaneously with this authorisation the Government granted it a series of additional powers which were unconnected with the

change of the situation and were simply adopted in order to counteract the influence of the private banking families.

Yet another indication of the Government's policy to weaken the banking families has been the issue of shares by one of the companies of the Mitsui concern to the public. This transaction was explained on the ground that, owing to the expansion of the heavy industries controlled by the Mitsui family, it has become necessary to raise new financial resources. While in other belligerent countries the expansion of privately owned arms industries is financed by the Government, in Japan a policy is pursued as a result of which the resources of the wealthy banking families have become largely immobilised.

Finally, at the end of December 1942 it was arranged that the two leading private banks, the Mitsui Bank and the Mitsubishi Bank should amalgamate with the two leading commercial banks, the Dai-Ichi Ginko and the Daikyku Ginko. The object of this step was to deprive the two leading banking families of the exclusive control of vast financial resources. Henceforth they will have to share their power with the managements of the commercial banks, instead of retaining it exclusively within the family.

The chances are that during the course of a prolonged war the banks will get the worst of this unequal contest with the Government. Once they have exhausted the possibilities of raising funds from the public, they will become dependent on support from the Bank of Japan and other Government-controlled institutions. Support will be forthcoming, but on the Government's terms. When this stage has been reached there will be no longer any reason why banks should continue to be excluded from the conquered territories. The last thing the Japanese Government would want in the long run is to see the development of local banks in the conquered countries, for their development would reduce the degree of the dependence of these countries on Japan. The encouragement of local banks and the discouragement of Japanese privately owned banks in conquered countries must be regarded, therefore, as a temporary phase.

## CHAPTER XII

### CURRENCY CHAOS : THE NEW MONETARY DISORDER

UNTIL the Japanese invasion order and stability reigned in the currencies of the South-Western Pacific countries. While the Chinese dollar had come more and more under the destructive influence of the unequal struggle with the invader, in other territories that were subsequently invaded by Japan, the currencies had been kept stable. As a result of the Japanese conquests the orderly currency conditions prevailing in the conquered countries gave way to chaos. Whether or not Japan will succeed in establishing a new political and economic order in Asia, she has already succeeded in establishing a new monetary disorder.

The first step towards the disorganisation of the well-established monetary systems was the issue of military currencies. It has been suggested that in this respect Japan has followed the example of Germany. In reality military yen notes were issued in China long before the Reichskreditkasse began to issue occupation mark notes in Poland. The only innovation after the outbreak of the war in the Pacific was that the military notes issued in the newly conquered countries were not in denominations of yen but in the various denominations of the national currencies of the countries concerned. The decision not to follow the German example in this respect gave rise to some sarcastic comments in the German Press, where it was remarked that instead of forcing the yen on the conquered countries Japan was taking the line of least resistance by adopting their respective currency units. As a matter of fact, there was some logic in the Japanese decision. It was possible to issue yen notes in China owing to the uncertain currency conditions prevailing in that country as a result of which the yen was looked upon with some degree of confidence. On the other hand, the populations of the other conquered countries had much more confidence in their own monetary

units than in the yen. The Japanese authorities were very anxious that the military notes should be received favourably. They were meant to serve partly as a bribe to the local populations to buy their support of the invaders. To that end it was essential that the local populations should trust the military notes. Not only did the Japanese authorities issue these notes in terms of the currency units of the invaded countries, but they were made to look outwardly similar to the national currencies in colour, design, size and shape. The idea was to deceive the primitive peoples concerned into believing that they were being paid in their trusted national currencies.

Military notes (known under the name of "Gumpyo" in Japanese) were thus issued in terms of pesos in the Philippines, in guilders in the Dutch East Indies, in Straits dollars in the Malayan Peninsula and in rupees in Burma. The only newly conquered country where they were issued in terms of yen was Hong Kong. The two countries which voluntarily surrendered, Siam and French Indo-China, were allowed to retain their own currencies, and no military notes were issued there.

The position at the time of writing is that in all occupied countries there are at least two different types of currencies in circulation. In Japanese-occupied China there are four currencies : the notes issued by the Central Banks of the Nanking and Peking puppet régimes, the Central Reserve Bank of Nanking and the Federal Reserve Bank of Peking, the military yen and the notes issued under the authority of the Chungking Government. The military notes in every occupied country, with the exception of China and Hong Kong, where they are issued in yen denominations, are circulating at par with the local currencies, and are freely interchangeable with the latter. Their value in terms of yen is, on the other hand, subject to modifications and fluctuations.

This is obviously meant to be a temporary state of affairs. At the beginning the Japanese notes were looked upon with much distrust, and it became necessary for the Japanese military authorities to adopt Draconian measures

to enforce their free circulation. The death penalty was introduced against anyone daring to refuse to accept these notes in payment for goods or trying to discredit them by spreading unfavourable rumours or making disparaging remarks concerning them. Gradually, however, the populations of the conquered countries have grown accustomed to the new currency, and there is now no difficulty in assuring its free circulation. Originally the two Central Banks operating in the conquered countries were kept open under Japanese supervision in order to provide the Japanese authorities with means of payment in case the military notes should not be readily accepted by the population. After a short while, however, this was found to be superfluous, and, accordingly, it was decided to discontinue the issue of national currencies. The Bank of Java has been placed under liquidation, and the Bank of the Philippines will, presumably, share its fate. The note-issuing authorities of the various British possessions ceased to operate on Japanese-controlled territory.

Japanese statements concerning their ultimate plan of currency system of the "Co-Prosperity" Sphere are even more contradictory than other aspects of the "Co-Prosperity" propaganda. It has been suggested that the yen will become the universal currency for Japanese-controlled Asia, and the Bank of Japan will eventually become the sole bank of issue. This has been made possible through the recent revision of the statutes of the Bank of Japan. In spite of this there appears to be no likelihood of the adoption of this solution. Japan like Germany will probably wish to retain the advantages of exploiting the conquered countries by means of the depreciation of their currencies and other methods of currency juggling. To that end it is essential that they should retain their own currencies. On the other hand, it is to the interest of Japanese trade with the conquered territories that there should be a stable monetary unit on the basis of which trade could be carried on. The Japanese monetary authorities appear to have devised a method of eating their cake and keeping it that does credit to their ingenuity. In a statement made in

November 1942, Mr. Ishiawata, the Japanese economic adviser to the Nanking puppet Government, declared that there could be no question of linking the Nanking dollar with the yen by means of fixed parity. He pointed out that the Nanking dollar was based on the old Chinese monetary system, and, therefore, it is doomed to depreciate. He added that Japan will adopt a new currency unit for trade within Great East Asia. Two interesting points emerge from this statement. It indicates that Japan has no intention of stabilising definitely the Nanking currency, or, presumably, the other currencies of conquered countries. Nor does she intend to expose the yen to shocks caused by monetary fluctuations, or to expose Japanese merchants to the inconvenience of having to trade on the basis of fluctuating currencies. She proposes to create a buffer currency which is to act as intermediary and shock-absorber between the local currencies and military notes of the conquered countries on the one hand and the yen on the other. It is by no means certain that Mr. Ishiawata's statement is the last word on the subject, but it gives some indication of the direction in which the minds of the Japanese monetary authorities work at present. In any case it may take some time before that policy is put into operation. Meanwhile the military notes will gradually become the sole currency. Their exchange value in terms of yen will remain subject to alteration until the final rate is agreed upon.

Let us now cast a glance at the monetary developments in the particular countries conquered by Japan. In Formosa, Korea and Manchuria Japanese-controlled banks of issue were established, the Bank of Taiwan, the Bank of Chosen and the Bank of Manchukuo. They issued yen notes (in Manchuria yuan notes) against the deposit of notes of the Bank of Japan. Recently this arrangement was modified, and the three banks of issue were ordered to replace their yen note reserves by balances with the Bank of Japan. The monetary situation in these three countries has not undergone any other change since the war in the Pacific.

The conquest of Shanghai was followed by chaotic

monetary developments in China. Originally the Nanking yuan was supposed to be at par with the Chungking yuan, but in practice the predominant majority of the Chinese people preferred the latter. This in spite of the fact that war conditions forced the Chinese Government to inflate its currency to a considerable degree. After the outbreak of the war in the Pacific the exchange rate of the territories nominally under the control of the Nanking Government was fixed at four Chungking or Nanking yuan to one military yen. When the Chungking authorities stopped supporting their own currency the opportunity was taken by the Japanese and Nanking authorities to embark on a plan to sabotage deliberately the Chungking yuan. Early in 1942 the Nanking yuan rose to a moderate premium. On March 7, 1942, the Nanking yuan was devalued to five for one military yen, and at the same time it was officially stabilised at that rate. On March 23 the Central Reserve Bank of Nanking discontinued exchanging Chungking yuan at par and fixed the exchange rate at 77 Nanking yuan per 100 Chungking yuan. During the second half of May the rate of exchange was gradually reduced until it reached 2 Chungking yuan for one Nanking yuan. The gradual depreciation of the Chungking yuan gave rise to a sweeping flight into commodities. There was a persistent and urgent demand for anything possessing intrinsic value, and prices were soaring while supplies were running short. Prices were rising not only in terms of the Chungking currency but also in terms of the Nanking currency and military yen. The attack on the Chungking yuan has thus proved to be a boomerang, as its result was that the Japanese and Nanking authorities had to pay higher prices. If they had devalued the Chungking yuan with one stroke this could have been avoided, but they wanted first to discredit that currency before trying to eliminate it altogether from circulation.

In June 1942 the final steps for the elimination of the Chungking yuan from Japanese-controlled territories were taken. The Nanking authorities announced that they were prepared to exchange Chungking notes at the official

rate of two Chungking yuan for each Nanking yuan. The larger amounts presented for exchange were paid in part in Government bonds. Even so, owing to the fact that the amount of Chungking notes that had accumulated in the Shanghai district ran into milliards, the exchange was a costly operation for the Nanking authorities. They inherited the inflation brought about by the Chungking authorities in defence of their country. The Nanking Government comforted itself, however, by declaring triumphantly that the battle of currencies ended with the final victory of the Nanking yuan. The announcement of this victory was, however, slightly premature, for the decisive battle has yet to be fought, and its outcome will be determined by the outcome of the war in the Far East. In any case the statement by Mr. Ishiawata referred to above should go a long way towards sobering down the Nanking quislings intoxicated by their so-called victory. It is now evident that in the opinion of the Japanese authorities the Nanking yuan was unable to detach itself from the Chungking yuan, and that the deliberate depreciation of the latter by the Nanking authorities was, therefore, very short-sighted even from the Nanking point of view.

In Hong Kong the methods resorted to in the monetary sphere by the invaders were, if anything, even more brutal than in Japanese-occupied China. Although before the invasion the Hong Kong dollar was at a small premium against the yen, after the occupation of the colony it was fixed at two dollars per one yen. Later it was further devalued to four dollars per yen, and finally the dollar was demonetised altogether. Only part of the population was given a chance to exchange their notes for military yen. Arrangements were made between the British and the Chungking Governments to enable the holders of Hong Kong dollars who sought refuge in China to exchange them at the old rate of 4.65 Chungking yuan for one Hong Kong dollar.

In Malaya the issue of Straits dollars by the British authorities stopped, and the Japanese authorities put into circulation military dollars which were at par with the



Straits dollar. In the Dutch East Indies military guilder notes were issued which were at par with the notes of the Bank of Java. There was a moderate disparity between the military guilder and the military dollar notes, and this gave rise to a rather anomalous situation in Sumatra, which island was joined by Japan to Malaya for administrative purposes. Speculation developed, resulting in a substantial premium on the military guilder and the Dutch East Indies guilder against the military dollar and the Straits dollar. To bring this confusion to an end the Japanese authorities decreed that henceforth the Straits dollar would be equal to the Dutch East Indies guilder. Nevertheless many people continued to prefer the guilder, and in order to prevent the wholesale conversion of Straits dollars into guilders the authorities had to restrict the exchange effected at parity by the authorised banks. The result was that a black market developed in which the rates continued to fluctuate.

In the Philippines the United States dollar continued to be accepted provisionally at the rate of two pesos or two military pesos. The population suffered considerable hardship owing to the refusal of the Japanese authorities to recognise the emergency currencies issued during the period of the hostilities by outlying branches of the Bank of the Philippines. This was necessary because, owing to the occupation of Manila at an early stage of the war, these branches had no means of obtaining the required supply of notes from their head office. The total amount of emergency currencies issued is estimated at a considerable figure, and the complete loss of large holdings contributed towards paralysing economic life. There is a general shortage of currency also owing to the fact that the supplies of notes in the possession of the Bank of the Philippines and of the military authorities were either evacuated or destroyed by the American or Philippine authorities.

In Burma military rupee notes are issued by the Japanese authorities. The rupee, instead of being subdivided into annas and pies, is divided into units of one hundredth of a rupee. While under the British régime silver coins

were issued, the Japanese authorities only issue paper money.

French Indo-China was let off comparatively lightly from a monetary point of view. In her case currency devaluation was not resorted to as a means of exploitation. Should anyone interpret this fact, however, as an indication that countries which did not resist Japanese invasion are treated generously, let it be sufficient to point out the experience of Siam. The exchange rate between Japan and Siam was changed to a very considerable extent in favour of the former. Before the invasion the exchange rate was 100 bahts to 159.25 yen. In February 1942 the rate was slightly modified in favour of Japan, the new parity being 155.70 yen. On April 22 the Siamese Government "agreed" to the devaluation of the baht to parity with the yen. Henceforth one baht was equivalent to one yen. This represented a devaluation of 37 per cent compared with the pre-war rate.

It stands to reason that such a devaluation was not willingly agreed to by the Siamese Government. Its disadvantages from the point of view of Siam are only too obvious. As a result of this devaluation Siam has to export a larger quantity of her products in payment of the same quantity of Japanese goods. The fact that such an unfavourable agreement had to be accepted shows that Siam's independence is purely fictitious. If the trade and payments agreement had been negotiated as between equals, the Siamese Government would never have accepted such a modification of her exchange. Here again the change of Japan's attitude following on the consolidation of the military situation is evident. For more than two months after Pearl Harbour the Siamese exchange was allowed to remain at its pre-war level, and even in February, after the capture of Singapore, it was only depreciated to a slight degree. By the end of April, however, the Japanese Government felt it could afford to adopt a dictatorial tone towards the Siamese Government, and forced on the latter a devaluation which was entirely unjustified by economic considerations.

No information is available about exchange rates between the various national currencies and military notes on the one hand, and the yen on the other. The rates are believed to be subject to frequent changes, needless to say, always in favour of the yen. Japan has followed the German method of devaluing the currencies of the conquered countries in order that the goods purchased from them should be cheaper in terms of the currencies of the ruling race.

It seems certain that the conquered countries will retain separate currencies, even though the yen may possibly be the monetary unit which will eventually be adopted. This is in keeping with the principle that each country should be financially self-sufficient. Each conquered country will have a Central Bank of its own which will issue notes on the security of a yen balance with the Bank of Japan. In some instances arrangements have already been made to that end. A loan of 200,000,000 yen was granted in May 1942 to the Siamese Government for the purpose of constituting a yen reserve in the place of the sterling and dollar reserves which were blocked by the British and the United States Governments. The Central Reserve Bank of Nanking received altogether loans amounting to 400,000,000 yen. Why the conquered countries should be in need of such reserves considering that they are rapidly accumulating yen balances on their clearing accounts with Japan, is not easily understandable. Since these countries will be creditors of Japan, they will have no occasion to draw on their yen reserves. The whole arrangement is simply a matter of prestige for Japan, since it completes her favourite scheme of a Yen Bloc of currencies for Eastern Asia.

When the statutes of the South Sea Development Bank were debated before the Diet Committee, the Japanese Finance Minister gave some interesting figures concerning the note circulation in Japanese-occupied Asia. At the end of 1941 the combined note circulation of the Yen Bloc countries was equivalent to 10,170,000,000 yen. This figure does not include military yen issued in December in the newly conquered territories for which

no statistics were available. It included, however, the original note circulations of the newly conquered countries which were given as follows: French Indo-China, 300,000,000 piastres; Siam, 260,000,000 bahts; Philippines, 160,000,000 pesos; Malaya, 162,000,000 Straits dollars; Dutch East Indies, 260,000,000 guilders; Burma, 127,000,000 rupees. At the end of 1937 the combined note issue of the Yen Bloc was 3,500,000,000 yen; at the end of 1938 it was 4,380,000,000 yen; and at the end of 1940, 6,080,000,000 yen. The increase was due in part to the extension of Japanese rule in China between 1937 and 1940, but largely to the expansion of the note issue in Japan and Japanese-controlled countries.

One of the objects of the recent revision of the statutes of the Bank of Japan was to enable that institution to become the super-Central Bank for the "Co-Prosperity" Sphere. It is meant to play the same part in Asia as the Reichsbank is meant to play in German-occupied Europe. Each one of the countries within the "Co-Prosperity" Sphere would have its own Central Bank and its own currency secured by a yen reserve. In theory the system sounds very neat, but in practice it may take a long time before some kind of order can emerge from the present currency confusion.

The exchange clearing system will be adopted for the purpose of settling claims arising from foreign trade between various parts of the "Co-Prosperity" Sphere. It is not yet certain whether the exchange clearing arrangements are intended to be comprehensive, and will cover not merely payments arising from foreign trade, but transfers of every kind. It is the declared intention of the Japanese Government to establish a multilateral clearing system with Tokyo as the clearing centre.

The adoption of the clearing system in the "Co-Prosperity" Sphere is decidedly a move to imitate Germany. That system has never been popular in Japan, and until the conclusion of the agreement with Siam in May 1942, she had not a single clearing agreement. Germany, on the other hand, had been operating exchange clearing agreements

ever since 1931, and had brought the technique of the system to a fine art. It was mainly with the object of explaining that system to Japan that one of Germany's super-negotiators, Herr Wohltat, paid a visit to Tokyo in 1942. Following his visit, it has been decided that Japan should have a clearing arrangement with every one of the conquered countries.

The methods with the aid of which Germany has been exploiting her victims with the help of exchange clearing agreements are too well known to require detailed description. Long before Germany had conquered the countries of her *Lebensraum* she had run up big indebtedness towards them on her clearing accounts, and had resorted to all sorts of devices to induce these countries to continue to sell their goods against payments in frozen reichsmarks. The conquest of these countries simplified matters very much. There was no longer any need to trick them into exporting to Germany against payments in frozen reichsmarks. Henceforth they were simply ordered to do so, with the result that the total amount of the frozen reichsmark balances on clearing accounts with Germany underwent a spectacular increase. In June 1941 that total was estimated at five milliard reichsmarks. Twelve months later it was estimated at nine milliard reichsmarks, while at the time of writing it has probably exceeded considerably ten milliard reichsmarks. This amount represented Germany's adverse trade balance in relation to the conquered countries. To the amount of over £1,000,000,000 these countries had to sell Germany goods without obtaining goods in return. While the exploitation of the conquered by the conqueror is as old as mankind itself, never before has such an ingenious device been employed for camouflaging the fact of exploitation.

In countries which she conquered prior to 1941, Japan did not trouble to resort to such sophisticated methods. In Korea, Formosa and Manchuria, Japan simply established Central Banks which issued notes to pay for the goods she required. This was also done in North and Central China, where in addition goods were purchased also against pay-

ment in military yen. There was no question of incurring indebtedness on clearing accounts with the Governments of Peking or Nanking.

It is possible that the adoption of the clearing system has been decided upon partly owing to the fact that it has been considered necessary to keep up appearances in relation to Siam and French Indo-China. Both these countries are as much under Japanese military, political and economic domination as any of the countries which were conquered by force of arms. Nevertheless, since the Government of Vichy and the Siamese Government agreed to the Japanese military occupation of French Indo-China and Siam, it is considered expedient to keep up the pretence that their independence is respected in Tokyo. The object of this attitude is to tempt other countries, especially India, into surrendering without resistance, on the strength of promises that their independence would be respected. To reinforce these promises Siam and French Indo-China have been allowed to retain an appearance of independence in various spheres. Their situation is somewhat similar to that of Hungary, Rumania, Bulgaria and other European States which accepted German domination without resistance. On paper their status is that of a minor ally of Germany, though in practice they are exploited with the same ruthless efficiency as the conquered countries.

For the sake of keeping up appearances Japan decided to conclude an exchange clearing agreement with Siam. The latter would receive payment for her export surplus to Japan in the form of a yen balance on Siam's clearing account in Tokyo. The original agreement was totally different. Until May 1942 the pre-war agreement, according to which Japan paid Siam in sterling or dollars, was allowed to remain in operation. Evidently while fighting was going on in Burma the active co-operation of Siam was of some importance, and the Japanese Government abstained from antagonising the Siamese Government by interfering with the old arrangement. Once the conquest of Burma was more or less complete Tokyo could afford to take a different line. Even then, however, appearances

were kept up, and instead of seizing supplies in Siam without payment or against payment in military yen a payments agreement was negotiated with the Siamese Government on the basis of which payments were made through a clearing account.

The progressive development of the scientific exploitation of Siam by Japan gives some indication of what countries can expect if they are short-sighted enough to surrender to Japan without resistance. There is, indeed, very little difference in practice between the crude exploitation of, say, the Dutch East Indies and the more sophisticated exploitation of Siam. In the Dutch East Indies Japan seized supplies without payment, or paid for them in military notes which could not be used to any extent for buying goods from Japan or from anywhere else. In Siam the goods purchased by Japan are paid for in frozen yen balances, which again can only be used to a very limited extent for the purchase of Japanese goods. While in the case of Siam appearances were kept up, and a bilateral agreement was concluded, in practice she is as much the victim of Japanese looting as the countries conquered by force of arms.

It is important to realise the change of the Japanese attitude for the worse with the progress of the consolidation of Japan's initial victory in the South-Western Pacific. This is important for two reasons: first, it gives Indian nationalists an idea of what they could expect if, in accordance with Gandhi's policy, an independent India would adopt an attitude of friendly neutrality towards Japan. Secondly, the experience of Siam casts doubt on the charitable assumption that the exploitation of the "Co-Prosperity" Sphere by Japan is a temporary war measure. While military necessity may have been used as an excuse for the exploitation of Siam at the beginning of the campaign, that necessity lessened rather than increased as the campaign progressed. In spite of that, the treatment of Siam at the hands of Japan was becoming less and less favourable.

Having adopted exchange clearing in relation to Siam,

the Tokyo Government appears to have decided in favour of the general application of that system in the "Co-Prosperity" Sphere. It is now the declared policy to conclude clearing arrangements with each of the Japanese-controlled countries, and the local Central Banks are to have a clearing account with the Bank of Japan. It is evident, as in the case of Germany so in the case of Japan, that the ruling race will incur a big indebtedness on its clearing accounts with the subject races.

It is worth noting that while Japan charges an interest of  $3\frac{1}{2}$  per cent on her loans to the conquered peoples — loans which are in any case kept idle in the form of yen balances — the Japanese indebtedness to the conquered countries in the form of frozen yen balances on their clearing accounts is free of interest. In this respect too Japan appears to have taken a leaf out of Germany's book. Germany grants export credits to conquered countries in spite of the fact that if she only paid them her clearing debts they would not be in need of such credits. While Rumania has to lend Germany on clearing account interest free she has to pay interest on the loan granted to her by German exporters. It seems that treatment of the subject races both by Germany and by Japan is a case of fleecing the shorn lamb.

Obviously the conquered countries are not in need of yen credits for the purpose of financing their purchases from Japan since those purchases are considerably more than covered by their sales to Japan. In theory they could make use of their credits for purchases from other Japanese-controlled countries. Even from that point of view, however, the yen balances on their clearing accounts would amply cover their requirements. In fact it is part of the "Co-Prosperity" scheme that the clearing balances of the conquered countries should be used for making payments within the "Co-Prosperity" Sphere through the working of a multilateral exchange system to be established in Tokyo.

It seems reasonable to assume that multilateral clearing will not work satisfactorily in the "Co-Prosperity" Sphere.



Even Germany with all her experience in exchange clearing has been unable to operate the system successfully. Although the annual report of the Bank for International Settlements for 1941-1942 is at pains to convey the impression that, minor frictions apart, the multilateral clearing system in German-controlled Europe is in full operation, the truth of the matter is that only an insignificant fraction of inter-European transfers go through the Berlin clearing office. The main difficulty is that all European countries have frozen reichsmark claims on their clearing accounts, and they are, therefore, unwilling to accept more frozen reichsmarks from other countries in payment for their exports. The situation will be the same in the "Co-Prosperity" Sphere. All the conquered countries will have frozen yen balances on their clearing accounts with Japan. They will not be in a position to refuse to continue to export to Japan in return for more frozen yen, but as far as possible they will seek to avoid exporting to other conquered countries against payment through the Tokyo clearing office.

Since Germany was unable to overcome this difficulty it seems unlikely that Japan, with no experience whatever in managing clearing accounts, will be able to solve it. What will probably happen in Japanese-controlled Asia is what is actually happening in German-controlled Europe. In so far as the Japanese-controlled countries will have autonomous administrations under Japanese control they will refuse to export to other Japanese-controlled countries in excess of the value of imports received from them. This is already actually happening in some known instances. The Japanese administration in Singapore refused to grant export permits to Japanese-occupied China unless and until goods of a corresponding value had actually arrived from China. The inadequate working of the multilateral clearing tends to lead to bilateralism in trade relations, which is exactly what the multilateral clearing system is meant to avoid.

There is no reason to suppose that even in time of peace either Japan or Germany would be able to overcome the difficulties created by the unilateral character of their trade with the subject races. They cannot eat their cake and

have it. It would be perfectly feasible to work the multilateral clearing system satisfactorily on the basis of normal trade relations, but the system cannot be applied successfully when, as a result of the exploitation of the subject races by the ruling races, trade between them tends to be systematically one-sided.

## CHAPTER XIII

### INFLATION AND DEFLATION IN THE " CO-PROSPERITY " SPHERE

THE acquisition of control over Europe by Germany, whether through conquest or peaceful surrender, was followed in every instance by the development of a strong inflationary trend in the countries concerned. This was due in part to the reckless spendings by the German Occupation Armies out of the proceeds of occupation costs imposed on the defeated nations ; and in part to the inflationary financing of the acquisition of their goods by Germany through the operation of exchange clearing. The Central Banks of the countries concerned have to expand their currency, either in order to enable their Governments to pay Germany occupation expenses, or in order to finance their exporters who receive no payments from Germany. At the same time, the volume of goods available to meet the expanded purchasing power becomes substantially reduced through heavy German purchases. In each one of the conquered countries there has been a strong upward trend in the price level, and other well-known inflationary symptoms, such as note hoarding, Stock Exchange booms, and the flight of capital into goods of intrinsic value, have also been in evidence.

Up to the time of writing no inflationary symptoms have been noticed to any marked degree in most of the Japanese-occupied countries. In fact, in Japanese-controlled Asia inflation and deflation have been running concurrently, and have been cancelling each other out to a large extent, paradoxical as this may sound. A somewhat similar situation prevailed in Great Britain at the beginning of the war, when the purchasing power of a large section of the population was strongly deflated while, at the same time, war expenditure and the devaluation of sterling created an inflationary tendency. The contrast is much more pronounced in the case of the Japanese-conquered countries.

There are several inflationary factors operating in Japanese-controlled Asia. Additional purchasing power is created through the spendings of the Occupation Armies. At the same time, the volume of goods available for meeting this additional purchasing power has become reduced owing to various circumstances. First of all, there is the ruthless officially organised looting by the Occupation Armies. If it confined itself to the exportable surplus it would not produce any inflationary effect, but since it also deprives the local population of a large part of their supplies the result is that the volume of goods on which their purchasing power can be exercised becomes reduced. Consumption by the Japanese garrisons tends to produce the same effect, though its significance should not be exaggerated, since the number of Japanese soldiers in most occupied countries is but a small fraction of the population. The effect of the "scorched earth" policy and of the devastation caused by the actual hostilities is a curtailment of production which prevents the adequate replenishment of supplies depleted by Japanese requisitions and purchases. All these factors are the same as those operating in Europe, though their relative extent is totally different. The degree of looting is, relatively speaking, less in Japanese-occupied Asia than in German-occupied Europe. This is not due to any higher moral principles or to a more considerate attitude of the Japanese. From this point of view there is nothing to choose between the two Axis partners. The difference in the degree of looting is due partly to the fact that German Occupation Armies and permanent garrisons in European countries are much stronger than the Japanese Occupation Armies and permanent garrisons in all the newly conquered part of Asia. Moreover, the requirements of a German soldier are incomparably larger than those of a Japanese soldier accustomed to a very low standard of living. Finally, the Germans had better transport facilities at their disposal for the removal of the loot. After repairing the railway lines destroyed during the hostilities, trains loaded with booty were leaving for the Reich in endless succession. From this point of view the Japanese are in a less favourable position. Lack of shipping

facilities prevents them from sending home that part of the loot which their Occupation Armies are unable to consume on the spot. It is therefore correct to define the Japanese régime in the South-Western Pacific as "plunder tempered by lack of shipping space". There are also other circumstances which moderate the extent to which the Japanese are able to satisfy their greed at the expense of the local populations. The reason why the inhabitants of the conquered countries in the South-Western Pacific are not reduced to starvation is that, owing to a shortage of jute bags, the Japanese are unable to remove all their supplies of rice. As a result of this and other factors, there is still a fair volume of goods in Japanese-conquered countries at the disposal of the local populations.

On the other hand, the replacement of such goods, once they are used up, is much more difficult in Japanese-occupied Asia than in German-occupied Europe. The devastations of industrial plant in Europe were negligible compared with those in Japanese-occupied Asia, and the work of reconstruction and repair is incomparably more difficult. On balance, it may be said, therefore, that while the immediate reduction of the volume of goods available for the local populations may have been less than in German-occupied Europe, the outlook for the civilian populations is distinctly less favourable in Asia.

The increase of purchasing power of the local populations has been much less pronounced than in German-occupied Europe. As we saw already above, the Japanese Invasion Armies were relatively small and their requirements relatively moderate. Consequently, the amounts they spent in occupied countries were much smaller than those spent by the German Invasion Armies. Moreover, in the case of Germany outright confiscation in Western Europe was confined, to a large extent, to Government property, and the privately owned stocks were paid for, even though it was with the aid of the conquered nations' own money. The Japanese Occupation Authorities, on the other hand, were very tight-fisted in their expenditure. They confiscated a great deal of private property, especially

from European and American owners, and were far from generous in their payments for goods bought from native owners. The relative extent of the issue of military notes was, consequently, smaller than that of the issues of occupation marks.

Another deflationary influence has already been dealt with in Chapter XI, describing the banking developments in the "Co-Prosperity" Sphere. We pointed out that the liquidation of banks controlled by European or American interests produced a deflationary effect because privately owned Japanese banks were not allowed to take the place of the banks thus eliminated, and the officially controlled Japanese banks were unable to expand their activities to a sufficient extent in such a short time to replace the credit facilities granted by European and American banks. It is true that whenever the Japanese authorities wanted to stimulate certain productive activities they took the necessary steps to secure the producers the financial facilities required. On the other hand, any productive activity with which the Japanese authorities were not concerned was left to its own devices. There are a number of banks controlled by the local Asiatic interests, and these were allowed to remain open. Apart from China, however, these banks are of no great importance, and they have been unable to fill the gap created by the liquidation of the European and American banks. The result was that production for civilian requirements suffered from the lack of an adequate volume of credit.

As a result of the above factors, while in German-occupied Europe inflationary forces began to operate from the very outset, in several countries of Japanese-occupied Asia there was on balance no inflationary effect noticeable. On the contrary, in most Japanese-occupied countries the level of prices tended to be downward rather than upward. This was because the deflationary factors operating in consequence of the Japanese occupation more than outweighed the inflationary factors. There was a very sharp contraction of purchasing power throughout Japanese-occupied Asia as the result of the wholesale unemployment

created partly by the "scorched earth" policy, and partly by the Japanese decision to reduce the production of certain exportable commodities. Industries throughout the Japanese-occupied countries came to a sudden standstill. The same is true concerning the mines and oilfields. Rubber and sugar-cane plantations remain neglected, and the hands formerly engaged by them remain idle. It is true the Japanese authorities roped in the unemployed to help them in their war effort through the construction of roads or fortifications, the building of boats, etc. Their rate of pay, is, however, less than one-half of what the native labourers were accustomed to receive from their white employers. The purchasing power of large sections of the native populations has thus contracted to a very marked extent. As for the white populations, their purchasing power was reduced to a negligible figure through the blocking of their banking accounts, the confiscation of their businesses, factories and plantations, and the termination of their employment.

Information about economic conditions in various Japanese-conquered countries is scant and contradictory. Nevertheless, it is possible to state that in the case of the Malayan Peninsula, Burma, the Dutch East Indies and, possibly, the Philippines, the deflationary factors have so far outweighed the inflationary factors, and prices continue to be depressed, while Shanghai and other recently occupied territories of China, Hong Kong, Siam and, possibly, French Indo-China have been experiencing an inflationary rise in prices. The reason why the deflationary factors predominated in Malaya, Burma and the Dutch East Indies lies partly in the fact that the "scorched earth" policy was carried out fairly thoroughly in these countries. The reason why the inflationary factors gained the upper hand in China, Hong Kong and Siam is that their currencies underwent a drastic devaluation. The extent of the devaluation of the Hong Kong dollar, before it was finally withdrawn from circulation in August 1942, was not less than 75 per cent. This necessarily entailed a very sharp rise in prices in the colony. The rise caused by the devalua-

tion of the Chungking yuan by 50 per cent in the terms of the Nanking yuan, and by the devaluation of the Nanking yuan by nearly 25 per cent in terms of military yen, is known to have been spectacular, especially as the Nanking authorities were ill-advised enough to carry out the devaluation of the Chungking yuan in instalments; as we saw in the last chapter, this gave rise to a flight into commodities.

Although no particulars are available about the effect of the devaluation of the Siamese currency on the price level in Siam, it is reasonable to assume that a devaluation of 37 per cent did not pass without producing a very marked effect. Deflationary factors which operated in the countries of the South-Western Pacific conquered by force of arms did not operate to anything like the same extent in Siam, where the destruction of the means of production was negligible. The same is true also concerning Shanghai, though not concerning Hong Kong.

The geographical position of the various conquered countries has probably influenced the relative strength of inflationary and deflationary factors operating within them. Owing to the limitation of shipping facilities the countries which are nearer Japan are looted in preference to those which are at a longer distance. Thus Japan naturally prefers to import rice from China rather than from Burma. This means that countries which have the misfortune of lying geographically nearer to their conqueror find their supplies depleted to a much larger degree. Consequently, other things being equal, their purchasing power is exercised on a smaller volume of goods, and its inflationary effect tends to be more pronounced.

It seems probable that sooner or later the inflationary factor will prevail throughout Japanese-conquered Asia. If the Japanese have not yet devalued the currencies of the Philippines, French Indo-China, the Dutch East Indies and Burma, they will do so sooner or later. Indeed, there have been unconfirmed reports about the devaluation of the Dutch East Indies guilder to par with the yen. The report may be premature, but judging by the example of Siam it would be in keeping with the policy pursued by Japan.



Whether, and to what degree, the devaluations will produce an inflationary effect, depends on the circumstances in which they will be carried out, and these will vary from country to country. Generally speaking, however, it is safe to assume that in Japanese-controlled Asia as in German-controlled Europe the trend in the long run will be decidedly inflationary.

## CHAPTER XIV

### CONCLUSION

THE foregoing chapters have made it plain that, although Japan has secured immense additions to her economic war potential as a result of the conquests in 1941-1942, there are nevertheless important gaps in it. We now propose to examine how these gaps are likely to affect Japan's position during the war, and how, in the unlikely event of the conquests remaining in her possession after the war, conditions would develop within the so-called "Co-Prosperity" Sphere.

There has been much wishful thinking about the flaws in Japan's economic armour. In fact, it requires very little exaggeration to say that Japan's capacity to wage a war was under-estimated to the same extent as was Russia's capacity. Politicians and authors who, between 1931 and 1941, were endeavouring to persuade Great Britain and the United States to take a firm stand against Japanese aggression on the Asiatic mainland, went out of their way to minimise Japan's economic resources and to exaggerate her weak spots. While they may have been substantially right in 1931, as time went on Japan's economic strength increased at an amazingly rapid pace. In any case, there were weakly defended countries rich in strategic raw materials within striking distance of Japan. It is an all but universal failing of economic experts to view the universe through the spectacles of their own special subject. Since Japan was obviously not in a position to wage a prolonged war with the aid of the economic resources that were actually at her disposal before December 1941, the experts concluded that it would be suicidal for her to embark on a war with the European Powers and the United States. Military experts could and should have put them wise that Japan was well in a position to gain possession of the countries of the South-Western Pacific in a lightning war,

for which she had ample resources. Once in possession of these countries Japan would then be in possession of most, if not all, strategic raw materials required for fighting a prolonged war.

It is now obvious that the striking power of the Japanese forces would have been sufficient either for the completion of the conquest of China or for the conquest of Eastern Siberia. Both of these operations would have required, however, an immense economic effort, and would have yielded highly inadequate immediate economic resources. On the other hand, it was possible to achieve the conquest of the South-Western Pacific with the aid of a relatively moderate economic exertion, and the immediate result surpassed many times anything Japan could possibly have secured by way of strategic raw materials through the conquest of the whole of China or of Eastern Siberia. From a purely military point of view, it might have appeared wiser to deal first with the strong army of the Soviet Union on the northern borders of Manchuria, or to finish the conquest of China before that country had time to organise its hundreds of millions of people for the defence of its soil. Economic considerations prevailed, however, and the South-Western Pacific headed the list of conquests. The assumption was that with the aid of the resources thus gained at the outset Japan would be able to conquer in turn China, Siberia, India and Australia.

In this connection, it is necessary to call the reader's attention to the almost incredible carelessness and short-sightedness displayed by the democratic countries during the years that preceded the war. For more than ten years those in possession of inside knowledge must have been aware of Japan's unlimited ambitions and warlike preparations. They were also aware that, unless Japan succeeded in securing the oilfields, tin mines, rubber plantations and other vital resources of the countries of the South-Western Pacific, she would be unable to stand up to the Great Powers. Notwithstanding this, the resources of strategic materials within the reach of Japan were left almost entirely undefended. If only the lessons of the invasion of Man-

churia in 1931 had been heeded, there would have been ample time to strengthen the defences of British, American, French and Dutch possessions in the Far East. Lack of co-ordination between military and economic strategy was one of the reasons why this was not done, a fact which is well worth bearing in mind.

The lightning conquests of the countries of the South-Western Pacific has reduced considerably the scope for contraband control, which had been applied with great success against Germany and Italy. In any case, soon after Japan's entry into the war, practically the whole of the American continent severed commercial relations with her, so that possibilities of blockade-running or evasion became materially reduced. Such naval and air action as the Allies are able to bring to bear on Japan, apart from the immediate requirements of military operations, aims not so much at preventing her from obtaining strategic raw materials from the countries outside her control, as at interfering with goods transport between the various territories under her control. Unfortunately, at the time of writing, the Allies are not yet in a position to enforce a systematic naval blockade of Japan proper, and interception of convoys carrying strategic raw materials is the exception rather than the rule. This being so, Japan can certainly rely on the use of raw material resources of the territories under her control in so far as she is capable of providing the necessary shipping facilities.

We saw in Chapter VII that, notwithstanding the conquest of some of the richest raw-material-producing countries in the world, there are still some key materials in which Japan is short. Such materials are copper, nickel, and special metals. It stands to reason that she has built up substantial stocks of all these materials, so that it would be unwarranted optimism to anticipate any acute difficulties from that direction for some time. So long as the war is conducted mainly in tropical or sub-tropical countries, the shortage in textile materials will remain a matter of secondary importance. In any case, as far as cotton is concerned at any rate, the shortage can be mitigated

through expanding cotton-growing in various Japanese-controlled countries.

Japan's war effort is handicapped to a much higher degree by her inadequate steel-producing and shipbuilding capacity. The two deficiencies are closely interwoven. In possession of adequate shipping facilities Japan could easily solve her steel problem by importing the iron ore and coal required. Conversely, in possession of an adequate steel-producing capacity, she could increase the pace of the expansion of her shipbuilding industry. As it is, the expansion of both steel industry and shipbuilding industry is bound to be relatively slow.

It would be a mistake, however, to place undue reliance on this admittedly grave handicap to Japan's economic war effort. Those who are acquainted with the speed of the expansion of Japan's machine tool industry, and of the engineering industry in general, are in a position to form an idea about Japan's capacity for expanding her industries. Having realised the vital importance of increasing steel production and shipbuilding, Japan undoubtedly concentrates in that direction all the energies she can spare. It would be a mistake to under-estimate her organising capacity or the industrious character and selfless patriotism of the Japanese people who will undoubtedly exert themselves to the utmost to increase the output of steel and to expedite shipbuilding.

Steel-works and shipyards cannot, however, be built overnight. It would take a long time before Japan would be able to make up the deficiency of her steel production and shipbuilding capacity. Meanwhile she remains at a grave disadvantage in that she is unable to produce all the steel she would require in her economic war effort, and she would remain handicapped in her military and economic operations by lack of shipping space. What is important is that the Allies should realise that time is in favour of Japan. In 1943 a determined Allied offensive in the Pacific would place Japan at a grave disadvantage owing to her inability to compete with Allied arms production for lack of steel, and, more especially, owing to her inability to provide the

shipping space required for major operations. By 1944, however, Japan may have largely remedied her major deficiencies, and the task of re-conquering the South-Western Pacific will become incomparably more difficult. If the raw material resources of the South-Western Pacific remain in Japan's possession till 1945, by that time she would have filled the gap in her economic war potential, and she would be a truly formidable proposition to deal with.

It is thus evident that the deficiencies of the resources of the Japanese-controlled territories, from the point of view of the conduct of the war, are for the most part temporary and can be overcome in the course of time. The chances are that within a comparatively short time the effects of the "scorched earth" policy on the Japanese economic war effort will be materially reduced, and the oilfields and refineries, and other industrial plants will be restored, at any rate to the extent required for the purposes of Japanese war economy. If Japan is given a chance to increase her shipping space sufficiently to gain possession of the raw materials produced in the conquered countries, then she will be able to complete her industrialisation. While she will find it difficult to defend her conquests in face of the increased power of the Allies, on the other hand she can convert her Island Empire into an almost impregnable fortress. The task of the invasion of Japan proper will then become extremely difficult. Yet there can be no peace in the Pacific unless and until Japan's military power is definitely broken.

The object in pointing out that time is in favour of Japan is not to agitate in favour of a premature Allied offensive in the Pacific, but to draw attention to the weak spot on which the Allies should concentrate. Possibly they may not be able to spare next year adequate naval forces and shipping facilities to embark on a major offensive in order to deal a knockout blow at Japan. Consideration of world strategy may make it expedient to dispose of Germany first. What is essential is that the Allies should concentrate all the naval power and air power they can

spare on a relentless warfare against Japanese shipping. It is much more urgent and important to sink a million tons of Japanese merchant ships than to reoccupy some of the lost territories. The partial reoccupation of the Solomon Islands was a highly advantageous operation for the United Nations, not because of the economic or political significance of the re-conquest of these comparatively unimportant territories, but because, in the course of her stubborn efforts to conquer them once more, Japan lost a large number of ships and because the possession of these islands helps the Allies to wage war against Japanese shipping.

Inter-Allied strategy in the Far East should be guided primarily by this consideration. With every single ship sunk the task of the defence of the conquered countries will become more difficult, and Japan's capacity to take advantage of their economic resources will become reduced. Successful operations of ocean-going submarines and long-distance bombers against Japanese shipping would cripple Japan's efforts to make good the deficiencies in her economic war potential. It would even force Japan to reverse the process of industrialisation owing to the difficulties of providing adequate shipping space for the import of essential food from overseas. Time can be prevented from working in favour of Japan if the Allies could sink more ships than Japan is capable of building.

Let us now consider the deficiencies in the resources of the so-called "Co-Prosperity" Sphere after the war. As we pointed out before, this is a purely hypothetical situation, and the chances are that it will never materialise. It is unlikely that the war would end in such a way as to give Japan definite possession of her conquests. Nevertheless, it is not superfluous to try to forecast the trend of developments if, in spite of anticipations to the contrary, Japan did succeed, after all, in consolidating her hold on the territories at present under her control.

In time of peace the deficiencies of the economic resources of a country or an empire should not be overrated. Deficiencies in various raw materials and manufactures could be covered from the countries outside the so-called

“Co-Prosperity” Sphere. To pay for the essential imports Japan would have to export some of the products of the territories under her control. On the basis of the pre-invasion situation, it would seem obvious that the “Co-Prosperity” Sphere would have substantial surpluses of rubber, tin, coffee, oil and other easily exportable commodities, in addition to Japan’s own surplus of silk and certain manufactures. It must be borne in mind, however, that by the end of the war the situation both within the Japanese-controlled countries and outside them will have undergone considerable changes. Japan has adopted the policy of reducing the production of rubber and other essential commodities to the limits of her requirements. This would mean that, at the time of the conclusion of the hostilities, the “Co-Prosperity” Sphere would not be producing any substantial exportable surpluses. Nor would demand for its exportable commodities remain the same as it was before the war. Great Britain and the United States are making desperate efforts to replace their lost resources of rubber, tin and other Far Eastern commodities, and the chances are that by the termination of the prolonged hostilities they would be in a position to cover their requirement. Even so, it would be absurd to pretend that Japan would then be unable to export goods to a sufficient value to cover her indispensable imports. The accent, however, is on the word “indispensable”. There would be, doubtless, a sufficient export surplus of commodities required by foreign countries to enable Japan to import the goods she needs for the expansion of her industries and even for the improvement of the standard of living of her own population. There would not be enough, however, to satisfy to any extent the requirements of the subject races, which would have to do without goods imported from outside the “Co-Prosperity” Sphere.

Nor is Japan likely to exert herself in order to provide the subject races with goods produced within the “Co-Prosperity” Sphere beyond satisfying their barest necessities. The experience of the peoples who have been for some time under Japanese domination is sufficient to indicate



Japan's attitude towards the conquered peoples. During the war these peoples are kept on short rations on the excuse of the overriding necessity of satisfying war requirements. After the war there will be no need for Japan to resort to excuses. At present her propaganda finds it necessary to pay lip-service to the desire to allow the subject races to share the prosperity of the ruling race, but after the war it will be simply barefaced, unmitigated exploitation such as was practised by Japan in Formosa and Korea even during the period of peace. Already Japanese politicians and newspapers can barely conceal their pleasurable anticipations of the improvement in the standard of living of the Japanese people achieved as a result of the conquests. It is pointed out that before long the Japanese people will be able to enjoy pleasures of which they have been deprived until now ; that there will be no longer any need for Japanese exporting industries to sell at low prices since foreign competition can be eliminated under the Japanese "New Order" in Asia. There is every indication that, after so many lean years, Japan intends to have a good time after the war. Yet simultaneously with the improvement of the standard of living of the Japanese people, a large part of the output has to be diverted to the construction of capital goods in accordance with the programme of the utilisation of the natural resources of the conquered countries. Moreover, Japan will have to keep up a huge army in order to safeguard her newly acquired Empire. She will certainly take no risks similar to those taken by the British, French and Dutch Empires. She is only too well aware that, in case of Axis victory, sooner or later she would come into conflict with Germany, and for this reason she could not afford to convert her arms industries for the production of ploughshares. Indeed, these arms industries would continue to have the first call on her expanded resources. It is easy to imagine how little would be left over for the requirements of subject races after satisfying the requirements of the arms industries ; after providing the capital goods required for the exploitation of the Colonial Empire ; and after providing goods required for the improvement in

the standard of living of the ruling race. The chances are that the subject races would have to struggle on in the vicinity of the subsistence level.

Beyond doubt, by concentrating her energies on the exploitation of the newly conquered territories, Japan would be able to bring about many improvements, though in all probability these would be largely offset by the disadvantages of the conversion of their systems of production in accordance with Japanese requirements. But in any case even if we were to assume that, on balance, the total volume of production within the "Co-Prosperity" Sphere would be larger than before the war, it is certain that the share of the populations of the Japanese-controlled countries in that increased value would be much smaller than before the war. In practice, "Co-Prosperity" would mean one-sided prosperity for Japan and abject poverty for the rest. Fortunately for the latter, and for mankind in general, the chances are that Japan will never have the opportunity of imposing on the subject races the permanent burden of her "New Order" in Asia.

THE END